

# FINANCIAL TIMES

Europe's Business Newspaper TUESDAY NOVEMBER 23 1993

## Volvo postpones meeting on Renault merger

Volvo, the Swedish manufacturer, postponed next week's planned shareholders meeting on the proposed merger of its car and truck operations with France's Renault for one month following intensive criticism of the deal in Sweden. It said it was seeking "further clarification" of the French government's plans to privatise Renault, a key focus of Swedish opposition to the merger.

**McDonnell Douglas**, US aerospace group, reported record third-quarter earnings of \$142m, underscoring a year-long financial recovery, helped by a large cost-cutting programme. It also forecast it would top Wall Street's expectations for the full year, despite the sharp downturn in US defence spending and a recession in the civil aviation industry. Page 21

**Ulster peace plan offers** The British government promised to table a comprehensive peace plan for Northern Ireland if the province's four non-violent political parties agree to a fresh round of peace talks. Page 20

**Japanese investors paid in kind** Japanese companies forced to cut dividends as earnings are hit by the country's prolonged economic slowdown are starting to compensate shareholders with produce instead. Page 20

**Bradford & Bingley**, the UK's seventh largest building society, has become the first non-German institution to be given permission to set up a Bauparkasse, the German equivalent of a building society. Page 21; Lex, Page 20

**Capital Cities**, which owns the ABC television network, has offered to buy from its shareholders up to about 12 per cent of its existing common stock which will cost the cash-rich group between \$1.18bn and \$1.26bn. Page 21

**Dinkins struggles against challenges**

Rudolph Giuliani, (left), the Republican-Liberal candidate, remains the slight favourite to oust David Dinkins, the Democrat, as mayor of New York today. In the most eye-catching of moments of election across the US, the latest polls put the two men on a virtual dead-heat, but this may understate the extent of support for Giuliani, the former federal prosecutor. Four years ago, Dinkins beat Giuliani by only 2 per cent. Page 5

**Japanese new car sales decline** The severity of the downturn in Japan's car market was underlined by October figures for October, which showed that sales of new cars were down 11.3 per cent on October last year. Page 4

**Iva**, Italy's state steel company, has decided to split its activities into three, marking an important step in the state's withdrawal from loss-making steel production. Page 2

**Norway may cut oilfield tax breaks** Norway is considering reducing tax concessions to oil companies that retain high levels of debt, in an effort to stabilise government revenues from the North Sea. Page 3

**Three die in Halloween ambush** Two gunmen ambushed a group of 13 and 14 year-olds walking home from a Halloween party in Pasadena, California, killing three boys and wounding three others in a motiveless attack.

**Space shuttle sets records** Space shuttle Columbia landed in California with seven astronauts and a cargo of laboratory rats, after a 14-day mission that set a US flight endurance record for the longest of all 58 shuttle missions.

**New newspaper for Hong Kong** The publisher of Hong Kong's biggest Chinese daily, Oriental Press Group, confirmed it is setting up an English-language paper to challenge the dominant South China Morning Post. The Eastern Express will be launched in January.

**UK schoolboys on murder charge** The trial opened of two 11-year-old boys charged with murdering two-year-old James Bulger in Liverpool, northern England. The court heard they attacked James with bricks, stones and a piece of metal before laying his body on a railway track, where it was hit by a train and cut in two.

**Four feared dead in Corsican storms** Ten people were missing and four feared dead in flash floods which struck the Mediterranean island of Corsica. Weather, Page 20

## US Supreme Court to sit on unitary tax system

By George Graham in Washington

THE US Supreme Court placed the Clinton administration in a painful quandary yesterday by announcing that it was going to review the constitutionality of California's unitary tax system - which taxes multinational corporations on the basis of their worldwide income.

The nine-member court said it would review both the case brought by Barclays Bank of the UK, questioning California's right to apply the unitary system to foreign-owned companies, and a parallel case brought by Colgate-Palmolive raising similar issues in relation to US-owned businesses.

Together, the two cases may affect about \$4m in tax revenues that California has either collected or assessed.

Fulfilling a campaign pledge, President Bill Clinton reversed the policy of the last three administrations by backing California's argument that the case should not be heard. The administration is extremely anxious that California, politically crucial and virtually bankrupt, should not lose the \$4m at stake.

At the same time, the Clinton administration is unwilling to stand forthrightly against its foreign partners - especially the UK - who have unrelentingly criticised unitary taxation as contrary to the internationally accepted

arm's length system.

In a brief filed with the Supreme Court last month, the US solicitor-general argued that although the decision by the California Supreme Court upholding the unitary system was "subject to serious question", there was no practical need for a review because of changes California made last month to its tax law to meet foreign objections.

The unitary method assesses tax on a proportion of a group's worldwide income, whereas the arm's length system taxes only the revenues of the companies doing business in the state.

Yesterday's announcement surprised many legal experts and appeared to shift the odds of victory strongly in Barclays' favour, but Mr Jerome Libin, a lawyer representing the UK government in the case, cautioned against any such prediction.

"It only takes four votes to grant a petition for review and it takes five votes to win," he said.

Mr Brad Sherman, a member of the California franchise tax board who was active in promoting the changes to the unitary tax system, said he was disappointed by the Supreme Court's decision. "We thought we had a good chance to close this can of worms. The can remains open," he said.

In reviewing the Barclays and

Continued on Page 20



Palestinians demonstrators fly the flag in Jerusalem. Israeli reaction to the recent peace accord will be tested in local elections today. Page 4

## Talks mark end of four-year ban on high-level military contacts US builds bridges to Beijing

By Alexander Nicoll, Asia Editor, in London

A SENIOR US defence department official is in Beijing for talks which mark the end of Washington's four-year ban on high-level military contacts and are the latest sign of a revitalisation of its policy towards China.

The discussions being held by Mr Charles Freeman, assistant secretary of defence for regional security affairs, with the People's Liberation Army follow separate visits to Beijing in recent weeks by Mr Mike Espy, the agriculture secretary, and senior State Department and trade officials.

Also indicating an improvement in relations, Mr Li Peng, China's premier, said in remarks published yesterday that this month's meeting in Seattle between President Bill Clinton and Mr Jiang Zemin, China's president, "is a good thing and is of great significance".

Officials of both sides have, however, been careful not to raise hopes that significant Sino-US agreements could be reached in Seattle.

The new US strategy is to maintain insistence on improvement in these areas but also engage China in a much broader range of discussions so that the issues in dispute cease to dominate the bilateral relationship.

"We are now embarked on a policy of re-engaging," a US official said. "We are no longer denying ourselves the possibility of talking to the Chinese at the level necessary."

The hope is that a broader dialogue would make it easier for the US to explain where it found Chinese policies to be objectionable and to obtain changes acceptable to China.

However, US officials are in no doubt that Mr Clinton may revoke China's most favoured

nation trading status next year if progress is not seen.

Mr Warren Christopher, secretary of state, told businessmen recently: "I don't believe we can sustain the position for MFN for beyond next June unless we see some improvement in the human rights field by the Chinese, as well as reform in connection with trade practices and progress in the non-proliferation front."

He made clear that Washington wanted changes soon rather than at the last minute before Mr Clinton's decision next year.

China dismisses US linkage of human rights and trade as a relic of the cold war and has called for greater US-China contacts.

China's economy, Page 19

## UK chancellor wins agreement on spending cuts

By James Birt, Political Staff, in London

MR KENNETH CLARKE, the British chancellor of the exchequer, won a victory yesterday in the run-up to his first budget on November 30 by persuading fellow cabinet ministers in Mr John Major's government to cut departmental spending and freeze public expenditure for next year.

In an unexpected announcement, a spokesman for the prime minister's office said ministers had concluded nearly all the details of this year's departmental spending round in a series of meetings with Treasury officials in recent days.

The formal announcement of the spending totals agreed for each department will come in Mr Clarke's unified budget, which will also deal with revenue proposals.

The success in freezing expenditure at present levels will please right-wingers in the ruling Conservative party by reducing the pressure to increase revenues through tax increases.

However, members of Parliament assumed that there would still be cuts in defence spending, the most contentious area in the public-spending round, although these would not now be as large as military chiefs had first feared.

Officials at the prime minister's official residence in Downing Street and the Treasury confirmed that the proposed spending total of £263.6bn (£83.3bn) for next year had been met. A special session of the cabinet due to discuss public spending today has been cancelled. The final details of the spending plan will be finalised on Thursday at a "routine" session of the cabinet which should avoid the tough debate that had been expected.

"There has been sufficient progress to ensure that decisions about spending programme totals can be taken at cabinet on Thursday in the normal way," the Downing Street spokesman said, adding: "We are nearly there."

The biggest source of tension

in recent weeks has been the level of defence spending for the next three years.

Treasury officials had threatened to cut defence spending by about 11bn in each of the next three years, but Mr Malcolm Rifkind, the defence secretary, warned last week that any

attempt to make more than token cuts in the £23bn defence budget risked provoking a full defence review. A group of 14 Conservative backbenchers had also threatened to vote against large cuts in defence spending. The agreement on defence expenditure followed a meeting between

the prime minister and defence chiefs last Wednesday. Some Conservative backbenchers were still insisting yesterday that they would revolt against any cuts in defence spending which amounted to more than £1.3bn in

Continued on Page 20

## Japanese contractor seeks protection with \$5bn debts

By William Dawkins in Tokyo

MURAMOTO Construction, a little-known contractor, became Japan's biggest financial failure for more than 45 years yesterday when it filed for protection from its creditors, unable to pay debts of ¥560m (\$5.67bn).

This is by far the biggest single potential loss facing Japan's banking system since the collapse in asset prices started two years ago, sending the economy into recession.

Of the 50 banks exposed to the group, the leading creditor is Nanto Bank, the main regional bank in Nara prefecture, western Japan, where Muramoto, the country's 24th-largest general construction group, is based. It has ¥56m of loans to Muramoto, which compares with the bank's ¥3,000m deposit base.

Nanto is followed by Daiwa Bank, which has led creditors' negotiations with the company, with loans of ¥45bn; Long Term

Credit Bank of Japan, with ¥38bn; and Dai-ichi Kangyo Bank, with ¥28bn.

Muramoto's collapse would cause "adverse effects" for its creditor banks, but they can absorb the loss between them, a senior official of the Bank of Japan, the central bank, said.

Creditors had secured collateral for their loans, and had approved the move in advance, a finance ministry official added.

However, the move may increase Japanese banks' caution at a time when lending is already sluggish, one of the factors contributing to the recession.

Until yesterday, Japan's largest corporate collapse since 1945 was that of Sankei Steamship, which filed for bankruptcy in 1985 with debts of ¥520m.

Teikoku Databank, the private credit research agency, attributed Muramoto's collapse to the failures of property companies with which it had undertaken joint developments. Like other prop-

erty companies, they suffered in the prolonged decline in property prices.

Muramoto, an unlisted company capitalised at ¥2.4bn and with sales of ¥291.5bn last year, specialises in public works projects, but it diversified into golf course construction and property development in the late 1980s. Its difficulties are thought to have started with the collapse of a property company that had ordered a golf course from the construction group. One of its property development partners, Daito, then went bankrupt.

Muramoto yesterday found it was unable to pay its bills after the majority of its creditors had rejected a rescue plan put together by Nanto Bank and Daiwa Bank. It filed for protection under Japan's corporate reorganisation act.

Background, Page 21 Shareholders may be paid in goods, Page 20

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STOCK MARKET INDICES				STERLING			
FT-SE 100	2184.4	(-0.6)		New York Composite	2,489.5		
Yield	3.72			London	1.4895		
FT-SE Eurotrack 100	1375.21	(-0.70)		DM	2.5076	(2.4975)	
FT-A All-Share	1982.18	(-0.25)		FF	8.78	(8.74)	
Nikkei	19,438.24	(-204.73)		SP	2,222.5	(2.2073)	
New York headline	2,489.5	(-0.10)		Y	180.25	(181.25)	
Dow Jones Ind Ave	3677.80	(-2.78)		Z Index	80.9	(80.9)	
S&P Composite	467.59	(-0.10)					
US LUNCHTIME RATES				DOLLAR			
Federal Funds	3 1/4			New York headline	2,489.5		
3-mo Treas Bill Yld	3.185%			DM	1.4895		
Long Bond	10.52			FF	5.925		
Yield	8.011%			SP	1.5015		
LONDON MONEY				Y	180.25		
3-mo interbank	5 1/2	(5 1/4)		DM	1.4895	(1.5795)	
Life long gilt future	Dec 11 1/2	Dec 11 1/2		FF	5.925	(5.88)	
NORTH SEA OIL (Argus)				SP	1.501	(1.494)	
Brent 15-day Dec	\$18.03	(15.33)		Y	180.2	(180.4)	
GOLD				S Index	66.7	(66.3)	
New York Comex Dec	\$382.1	(265.0)					
London	\$382.75	(265.0)		Tokyo close Y	108.63		

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## NEWS: EUROPE

# Italy moves nearer state steel sell-off

By Robert Graham in Rome

ITALY's state steel company Ilva has decided to split its activities into three, marking an important step in the state's withdrawal from loss-making steel production.

One of the three companies will be for round flat products produced at Taranto's integrated complex and at Novi Ligure, Genoa. A second will concentrate on stainless steels at Terni in Umbria.

Iri, the state holding that controls Ilva, intends these two operational companies to be privatised. A third company will include all those assets and activities which it intends to liquidate.

Mr Romano Prodi, the head of Iri, first unveiled plans to split up Ilva in July in an attempt to break the deadlock between Italy and the European Commission over state subsidies to the industry and to remove the financial burden of Ilva's £7.58bn (£3.15bn) debts. However, the idea came later of forming a special company to liquidate unsaleable assets - and it is assumed that that company will take on

Ilva's losses which totalled £1,700bn in 1992.

The company charged with liquidation will also handle 5,545 of the 11,500 redundancies envisaged over the next three years from Ilva's present workforce of 34,000. The job losses risk provoking serious unrest, but the government is to be asked to fund generous early retirements and back new industrial projects in the worst affected areas.

It is thought likely that Mr Hayao Nakamura, the Japanese steel executive brought in this year to run Ilva, will be asked to take over the management of the flat products company. But much will depend on who decides to buy out this operation based round Taranto, Europe's biggest steel complex, with a capacity of 10m tonnes a year.

This week, Mr Nakamura, who formerly worked for Nippon Steel, is accompanying Mr Prodi on a trip to Tokyo to discuss the privatisation of Iri activities with Japanese investors.

Ilva was formed in 1988 from the collapse of the previous state-run group, Finisider.

# Europe's big day a small affair

By Andrew Hill in Brussels

YESTERDAY was a strange birthday for what may be the most discussed, least read piece of paper in history.

The Maastricht treaty finally came into force on a day when the Catholic half of the revitalised European Community was having a day off.

No champagne, no fireworks. Most citizens of the "new European Union" as they are described were oblivious to the fact that overnight their solidarity had been "deepened", the democratic and efficient functioning of their institutions "enhanced", and their economic and social progress "promoted".

In Brussels, those same institutions were barely functioning. The European Commission and Council were enjoying the All Saints Day holiday. The treaty itself also appeared to be on holiday.

There was some confusion over copies at London's HMSO Books, source for UK government publications - "there's one done by the EC, which would be for Europe and Britain generally, and the government itself has done one that relates to Britain" - before the Commission's version was tracked down (£18 for the full version, including the 1997 Treaty of Rome, 28 for the Maastricht amendments on their own).

As for the specific rights of the EU citizen, some may find them rather disappointing.

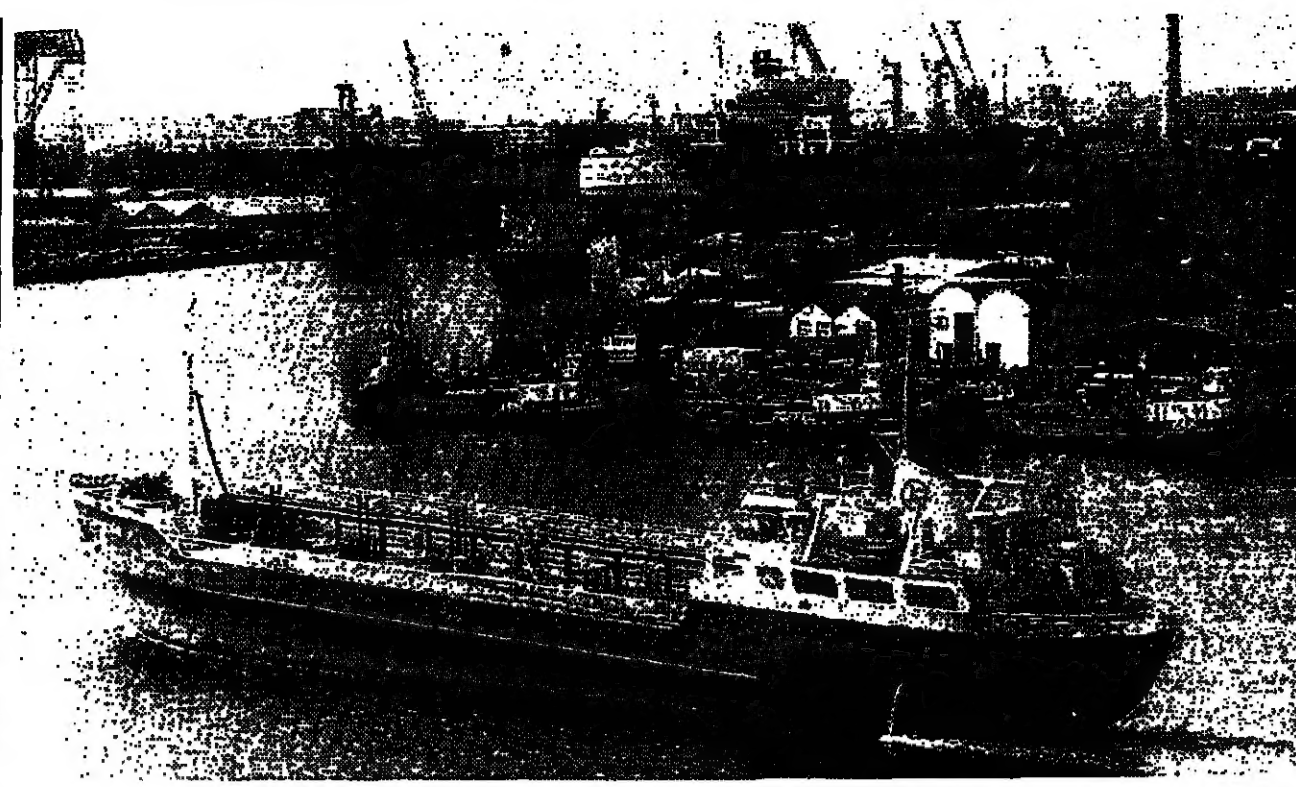
Expatriate EU citizens get the privilege of being able to vote in or stand for elections to their local municipalities or the European parliament in the place where they live, but as there are only 5m expatriates in the whole Union that may not amount to much of a democratic breakthrough.

Mr Len Lewis, electoral services manager at Lambeth Borough Council, was certainly not expecting a flood of requests from disenfranchised Portuguese wishing to represent south London at Strasbourg. "You're the first to call about it," he said yesterday.

Not satisfied? The Maastricht treaty tells you how you can complain about this new-fangled Community and its institutions. You can petition the European parliament directly or - in particularly bad cases - complain to an ombudsman, appointed by the parliament.

Also, the ombudsman could not be contacted yesterday. He, or she, has not yet been appointed.

As for the town of Maastricht itself, it was possibly the only place to allow itself a modest celebration. Now that it is no longer synonymous with particularly nasty disputes between Euro-enthusiasts and Euro-sceptics it is thinking of substituting itself "treaty town".



Rostock: resources were poured into what it was hoped would be a showpiece communist port, to the neglect of all else

# Reconstructing bankrupt east Germany: a tale of two cities

Judy Dempsey talks to the mayors of Halle and Rostock

FEW years for the days when eastern Germany was communist-ruled. But many remember how the capital, East Berlin, selected the party bosses who ran the main cities.

There were several key cities to which the aspiring party apparatchik sought promotion. One was Rostock, on the Baltic Sea, another Halle, deep in the heartland of "middle Germany".

Each with a population of 300,000, they were important political and economic centres of the old regime. Resources were pumped into Rostock, aimed at making it the most important port in eastern Germany and showing it could compete with the western shipbuilding centres of Hamburg and Bremen.

Red Halle, as it was known, also had funds directed its way to shore up heavy industry. But the infrastructure, including water, sewerage, housing and heating, was neglected.

Over-fulfilling the Five Year Plan in machine tool production took precedence over everything else.

Three years after unification, the mayors of both cities are struggling to rebuild an entire social, economic and local government infrastructure from scratch. They also have to cope with unemployment rates of more than 40 per cent.

No wonder Mr Klaus Rauhen, mayor of Halle, Saxony-Anhalt, sees his job as a mission. As a "Wessi", or westerner, he believes he can contribute to unification by passing on his experience as former mayor of Bonn.

"It has been rewarding and frustrating. I work about 15 hours a day. I don't know for how much longer I can continue this lifestyle," he says in his office in the centre of Halle.

Mr Klaus Kilman, his counterpart in Rostock, Mecklenburg-Vorpommern, is an "Ossi", or easterner. He had never dabbled in politics before unification. He is a theoretical physicist. "I thought I had something to contribute after the *Wende* [the change]. It has been hard. I often think about returning to my physics," he says.

Weak, coalition-led councils, suffering from inexperience and internal bickering, have hindered the consolidation of local government structures in both cities. Moral and financial bankruptcy have played their part as well.

"The people of the former east Germany still feel disoriented, and ashamed because they feel they were in a system which has lost all respect," says Mr Rauhen. He wants to restore the inner city as a means of generating self-confidence, pride and a sense of the pre-communist era. The problem is money.

Halle is also virtually bankrupt. It has a current expenditure budget of DM1bn (£400m) and an investment budget of DM300m. However, the collapse of the region's uncompetitive industry means that the city's share of company tax revenue is less than DM65m a year. Personnel costs, including administration wages, kindergartens and other employee services, account for 63 per cent of expenditure. To finance the deficit, the city has borrowed DM100m from banks and in the bond market.

Rostock has a budget of DM700m and a deficit of DM51m. The council's personnel costs account for 55 per cent of the budget - the average in western Germany is 35 per cent. Mr Kilman has raised DM51m in the bond markets or through bank credits to finance his city's deficit.

Both mayors are legally obliged to reduce personnel costs. Halle has already cut staff from 13,000 in 1991 to 8,000. Mr Rauhen intends to reduce it to 4,000. He has until the end of the year to dismiss staff. After that, each council employee will have to leave.

Mr Kilman, a Social Democrat who heads a weak coalition government of Christian Democrats and Social Democrats, says he also is committed to cutting his staff to 4,000, a third of the 1990 level. But the local parliament is opposing it. Cuts mean closing down kindergartens and other employee services.

Neither Mr Rauhen, a Christian Democrat, nor Mr Kilman needs any persuad-

ing about the need to create a lean, efficient city council. In 1992, the eastern Länder, or states, employed 304 civil servants for each 10,000 inhabitants - 30 per cent more than western Germany. The eastern local councils employed 497 civil servants for each 10,000 - twice the western level. According to the German Federation of Taxpayers, "eastern German administration has about 440,000 employees more than can be justified".

Yet some see a positive side to the dire state of the cities' finances. A shortfall of revenue could speed up the privatisation of local services, almost taboo in western Germany.

"If we do not have a mixture of public and the private investment, we will not be able to overcome our [financial] problems," says Mr Rauhen.

Privatisation of water services in Rostock and electricity in Halle, both of which were difficult to push through, revealed the unstable and paradoxical nature of eastern Germany's political alliances. In Rostock, the Social Democratic SPD voted for privatisation, and the Christian Democrat CDU opposed it. In Halle, the SPD and the refashioned communist PDS tried to block it.

Mr Tjark Woydt, head of Deutsche Bank in Rostock, explains how unification has thrown unexpected alliances. "Three years ago, politics in eastern Germany was like a casino game, with everyone vying for a place in the new order," he says.

"Today, officials are slowly trying to make up their minds about where they stand politically. It's taking time. People still don't know where they stand ideologically. They don't know what the main parties stand for."

Neither Mr Rauhen nor Mr Kilman has decided whether to remain on the eastern German political scene long enough to see the emergence of stable political structures. "It's an uphill struggle," says Mr Rauhen. "But both westerners and easterners have to make it together."

# Tide of ethnic Germans recedes

By Judy Dempsey in Berlin

THE number of ethnic Germans seeking to live in Germany has fallen sharply in the past 10 months, with the former Soviet Union accounting for the greatest reduction, the Interior Ministry announced yesterday.

Mr Horst Waffenschmidt, state secretary, said 187,558 ethnic Germans, or *Aussiedler*, from the former Soviet Union, had applied to move to Germany, nearly 100,000 fewer than in the same period last year. More than 158,815, particularly from the Omsk and Volga regions, and Saint Petersburg, have arrived in the country since January.

Applicants from eastern Europe are also falling, partly because the ethnic German community has dwindled over the past 10 years, but also possibly because of the economic climate and growing unemployment in Germany. The number of ethnic Germans from Poland fell to 9,100 from 25,045, and from Romania to 5,643 from 12,922. In all, 168,553 ethnic Germans have settled in Germany since January.

The German authorities have tried to restrict the number of ethnic Germans, who have an automatic right to citizenship, by promoting German-language schools, newspapers and cultural centres where they live. But Mr Waffenschmidt said yesterday they would only remain in their region if they had incentive to do so.

German prosecutors yesterday began investigating an assault by right-wing extremists on US athletes at the weekend. Reuter reports from Berlin. Authorities in Oberhof said about 15 skinheads shouted racist insults at two US athletes, both of whom were black. A team-mate who came to their aid was beaten.

**THE FINANCIAL TIMES**  
Published by The Financial Times (Europe) GmbH, Nibbelungplatz 3, 40119 Essen, Germany. Telephone: +49 69 156 830. Fax: +49 69 3944481. Telex: 416193. Represented by Edward Hugo, Managing Director, Financial Times Druck-Vertrieb und Marketing GmbH, Admiral-Rosenthal-Strasse 3a, 61263 Neu-Isenburg (owned by Hiltlberg International).  
Responsible Editor: Richard Lambert, c/o The Financial Times Limited, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000.

## NEWS IN BRIEF

# Austrian airline strike talks fail

NEGOTIATIONS failed yesterday to end a strike by pilots and cabin staff at Austrian Airlines that has grounded the loss-making national carrier for the past four days amid recriminations between unions representing flight and ground personnel, writes Patrick Blum in Vienna.

Mr Christian Schmidt, leader of the ground staff, denounced as senseless the strike called after management announced plans to cut 500 jobs next year from the 4,500-strong workforce. On Sunday, Mr Albin Schwarz, leader of the 1,200 striking flight staff, called for a new management, guarantees of the airline's independence in any future co-operation agreement with other airlines, and for a decisive say for unions in decisions affecting personnel.

The airline is expected to make a loss of Sch330m (\$70m) this year following losses of Sch525m in 1992.

# 'Pyramid' suspends payments

A pyramid investment company which launched a money-spinning craze in Romania said yesterday it had suspended payments to investors for two days because of "organisational problems" but denied reports it was about to collapse. Reuter reports from Bucharest. The Caritas company described as unfounded a wave of local press stories saying the money chain was losing momentum and that it would soon grind to a halt.

It was the second time in a month that Caritas has interrupted payments for several days. More than 4m Romanians have billions of lei tied up in the scheme, which works like a chain-letter game and promises depositors a return of eight times their initial deposits after just three months.

# Moscow bans demonstration

Moscow's city council has banned all demonstrations by all political parties and groups on communism's most cherished anniversary, Revolution Day, on November 7, Reuter reports. The ban was being introduced because some of the groups which had applied to take part in Sunday's rally had been involved in the abortive uprising against President Boris Yeltsin on October 3.

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## Norway may cut oilfield tax breaks

By Karen Fosell in Oslo

NORWAY is considering reducing tax concessions to oil companies that retain high levels of debt, in an effort to stabilise government revenues from the North Sea.

The measure would seek to offset revenue losses suffered after special tax concessions were introduced last year, Mr Arne Oelen, permanent finance ministry secretary, said yesterday.

The new rules had led to higher dividend payments and profit repatriations, Mr Oelen told a petroleum tax conference in Oslo.

The measure being considered would affect both domestic and foreign oil companies operating in the North Sea.

"We are currently considering different measures to avoid substantial revenue losses as a consequence of the increase in dividend payments and profit repatriations after the introduction of the new (petroleum) tax and accounting rules in 1992," Mr Oelen said.

Last year Norway introduced important tax reforms in the energy sector in which it substantially increased the

so-called special income tax rate, and abolished a production allowance, together with petroleum royalty payments on natural gas.

Mr Oelen said that as a result of these changes the reserve fund requirements and dividend taxation rules were no longer effective in terms of binding capital in the Norwegian petroleum tax jurisdiction.

Mr Oelen said, Norway actively uses income tax to ensure the state a larger share of total (petroleum) revenue when the oil price increases, and to avoid a serious worsening of the working climate for the oil companies in times of lower pre-tax incomes.

Options being considered were an increase in the so-called special income tax and changing the regulations so that companies would be discouraged from maintaining high debt levels as a way of increasing tax allowances.

Mr Oelen said, Norway's current account surplus jumped to Kr16.37bn (£1.4bn) in January-August from Kr10.63bn in the same period a year ago, the Central Bureau of Statistics said, Reuters reports from Oslo.

## Danish bank rescue backfires on minister

By Hilary Barnes in Copenhagen

DENMARK'S Social Democratic coalition government, which promised a "decade of decency" when it came into office in January, has become embroiled in a controversy over a banking rescue operation.

The opposition is calling for the resignation of Mr Ole Stavad, minister for taxation, for allegedly misleading the Folketing, or parliament, over his part in a rescue action in August for a bank in Mr Stavad's North Jutland constituency.

Mr Poul Nyrup Rasmussen, the prime minister, whose government has only a one-vote majority, was forced at the weekend to give in to demands both from the opposition and from within the ranks of the coalition parties for an "impartial investigation" into the rescue.

Mr Stavad's troubles began when the government negotiated a deal with a North Jutland savings bank, Sparekassen Nordjylland (Spar Nord), to keep open the offices of a small local bank, Himmerlandsbanken, in the town of Hobro, which had collapsed with debts

of around Dkr400m (£40.2m). According to Spar Nord's managing director, Mr Jorgen Giversen, the savings bank obtained a "crystal-clear" agreement that, as the price of taking on Himmerlandsbanken's operations, the savings bank would be allowed to make a tax-loss deduction of Dkr173m.

However, when opposition politicians looked at the deal, they concluded that the offer of a tax-loss deduction was illegal. A tax-loss deduction is legal only if a company takes over another company in its entirety, but Spar Nord took over only part of Himmerlandsbanken, which was subsequently declared bankrupt.

Confronted with this argument, Mr Stavad said the government had never promised the savings bank a tax deduction, only that it could make normal loss-loss provisions for Dkr173m.

In that case, retorted Spar Nord's Mr Giversen, the government misled the savings bank's shareholders.

He published a fax from the Customs and Excise Board, sent to him at 4 am on Monday August 23, after a weekend of negotiations with the government, which appears to con-

firm his version of events. "We told the government during the negotiations that the alternative to a tax-loss deduction of this order was payment of about Dkr30m in cash to make up the difference between the assets and liabilities we were taking on," he says.

Mrs Kirsten Jacobsen, of the right-wing Progress party, who has spearheaded the attack on Mr Stavad, claims that the minister has repeatedly misled the Folketing and its committees in his attempts to escape blame.

The opposition parties yesterday accepted the government's proposal for an impartial investigation, which for the moment takes the pressure off Mr Stavad.

Mrs Rasmussen's government took office when the prime minister for over 10 years, the Conservative party's leader, Mr Poul Schlüter, resigned following a judicial inquiry.

The inquiry's highly controversial report found that he had misled the Folketing when reporting to it on the so-called Tamil scandal, in which his minister of justice illegally denied Tamil refugees the right to bring their families to Denmark.



UN peace envoy Thorvald Stoltenberg (right) speaking to aid truck drivers in Belgrade yesterday

## Appeal over new Bosnia atrocities

THE International Red Cross yesterday warned of mass expulsions in central Bosnia amid allegations that civilians were being summarily executed, writes Laura Silber in Belgrade.

The ICRC denounced the "blatant violation" of international humanitarian law around Vares, a Croat-held town in central Bosnia, appealing to the mostly Moslem government army and Bosnian Croat forces to stop the "harassment" of civilians. "Thousands of civilians have been forced to flee from their homes... they are fleeing looting, death threats, mistreatment and are desperately

searching for protection," the Geneva-based organisation said. The Bosnian army is fighting against Croat forces for land near Vares.

The town straddles one of the main aid routes linking Sarajevo to Tuzla. In Belgrade yesterday, Mr Thorvald Stoltenberg, UN peace envoy, protested against the detention of the crew of two Sea King choppers, who had been delivering relief supplies to Srebrenica, the Moslem enclave in eastern Bosnia. The incident comes after Serb forces flouting Srebrenica's status as a UN "safe area", seized control of part of the Moslem enclave.

## Kurd rebellion spoils Turkey's 70th birthday

By John Murray Brown in Istanbul

THERE was an air of unreality last weekend as Turkey celebrated its 70th year as a republic. As television quiz shows hosted young soldiers in full battle dress, the evening news carried footage of conspirators being strangled in coffins draped in the red Turkish flag.

The worsening rebellion in Turkey's Kurdish-speaking region is putting intense strain on the conservative-led coalition of Mrs Tansu Ciller, raising questions about its survival.

Last week, hardliners from Mrs Ciller's True Path party were promoted to key defence and interior ministries, apparently without the junior partner Social Democratic Populists being informed.

As both parties now set their sights on the nationwide municipal elections next March, and as they appeal to their traditional constituencies, the cosy cohabitation of the coalition looks shaky.

If the coalition breaks up, as Turkish newspapers were already predicting at the weekend, western diplomats believe Mrs Ciller could win support as a minority government. Should the her party emerge strongly from the March polls, Mrs Ciller might then be tempted to call early general elections, probably in the autumn.

The logic for both parties is that the present policy stalemate could damage their electoral chances. Since they swept the municipalities in the last local elections in 1989, the Social Democrats' standing has been hurt by a corruption scandal in the municipality of Istanbul, which it runs, and the failure to unite with other left-of-centre parties.

When the coalition was formed following the election in October 1991, there was a

Three Turkish officials will go to Damascus this week to urge Syria to curb the activities of guerrillas battling for a separate Kurdish state in Turkey, Reuters reports from Ankara.

Turkey has long urged Syria to help prevent cross-border infiltration by Kurdistan Workers' Party (PKK) rebels fighting a separatist struggle in south-east Turkey.

Prime Minister Tansu Ciller, last week accused Syria, Iraq, Iran and Armenia of allowing the PKK to use their territory and said she would pursue diplomatic efforts to persuade them to desist. Syria says it regards the PKK as an illegal organisation and arrests its members when it finds them.

popular expectation that the need to find common cause would force both parties to moderate their traditional positions - the True Path party forced to take on a more reformist Kurdish policy, and the Social Democrats to adopt a more pro-business and economic stance.

But Mrs Ciller has paid only lip service to the need for a national policy on the Kurds, while casting more powers to the military in the prosecution of what one of her ministers last week publicly conceded was now a full-scale war. With the bloodshed escalating - more than 2,000 people have been killed this year alone - last week's cabinet reshuffle reflected her party's concern that the military may use the current crisis to impose martial law in the region.

Equally, Mrs Ciller's economic reforms have been hampered by what one senior western diplomat called the "bureaucratic inertia" of the Social Democrats. Her efforts to legislate by decree have now been overruled by the constitutional court.

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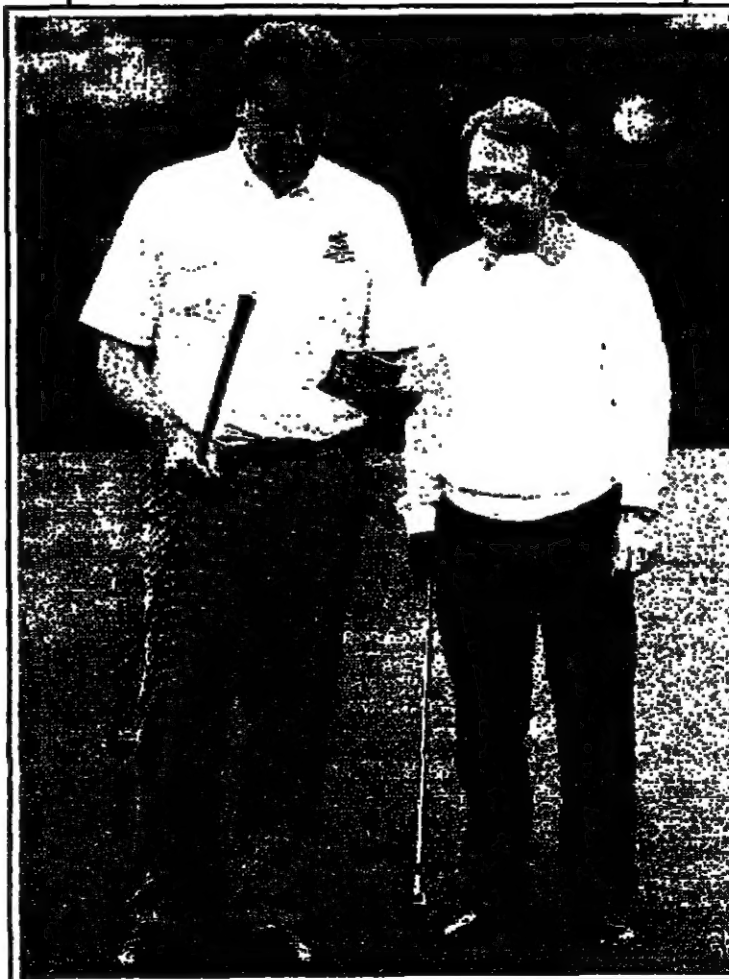
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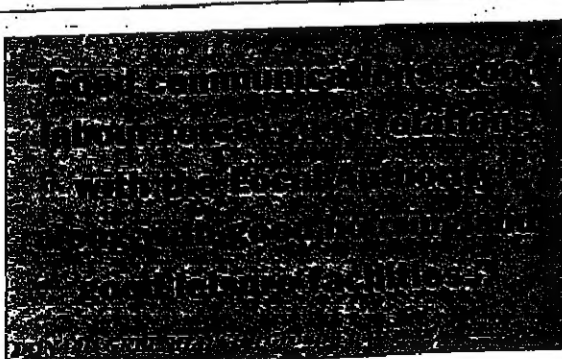
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## NEWS: INTERNATIONAL

## Corruption probe jeopardises Kenya aid

By Leslie Crawford in Nairobi

KENYA'S donors are investigating financial mismanagement and allegations of corruption involving more than \$125m (\$22.7m) at the state-owned Kenya Post and Telecommunications Company. Further irregularities have been revealed by a former manager of KPTC, now living abroad, who told the Financial Times that an inventory check last year on stock worth \$250m on paper produced "huge discrepancies".

Donor officials believe that

some of the funds were channelled to a group of local banks which lent the money on to government officials or supporters of the ruling Kanu party.

These banks are already under investigation by the government, acting with the encouragement of donors.

Negotiations for a new International Monetary Fund agreement and plans for a donor conference in Paris this month could be jeopardised unless the government of President Daniel arap Moi takes urgent steps to overhaul KPTC, one of Ken-

ya's largest state-owned companies. Without the IMF endorsement of economic policy, donors are unlikely to resume financial aid frozen since November 1991. And without the renewal of aid, Kenya faces a balance of payments crisis. It is \$700m in arrears to its foreign creditors.

Donors are seeking an explanation of KPTC's failure to remit to the Treasury the 18 per cent value added tax it charges on telephone bills. The information is disclosed in an auditor general's report which also reveals that the company

has not paid corporation tax since 1988.

The report shows that KPTC has accumulated arrears on its own foreign debt, on its contributions to the National Social Security Fund, and on a special telecommunications tax.

The monies owed are said by western officials to total more than \$125m, an amount equivalent to about half the company's annual turnover.

KPTC deposited hundreds of millions of shillings in scandal-tainted domestic banks. According to a western official investigating the KPTC man-

agement, these funds were on-

lent to government supporters. Although four of these banks were closed earlier this year, auditors are still trying to trace the deposits of KPTC and the company pension fund held at another, Transnational Bank. The bank has fended off closure by promising to inject fresh capital to cover bad loans, but one of Transnational Bank's main shareholders, Mr Jared Kagwana, has fled the country after being questioned by police over alleged embezzlement.

A former manager at KPTC

has also accused company executives of faking the theft of millions of dollars of equipment so that it could be resold to KPTC for instant self-enrichment.

Mr Stanley Bell, KPTC's chief general manager until October 1992, says he was fired for refusing to authorise a \$20m procurement order for spare parts. According to him, thefts of stocks were being reported to justify the purchase of the same goods.

He ordered an inventory check and encountered "huge discrepancies".

## Japanese new car sales show steep decline

By Michio Nakamoto in Tokyo

THE SEVERITY of the downturn in Japan's car market was underlined yesterday by registration figures for October which showed that sales of new cars were down 11.3 per cent on October last year.

The figures, from the Japan Automobile Dealers Association, represent the seventh consecutive monthly decline in new car sales, and a 15.5 per cent fall from September. Vehicle sales in October amounted to 374,237 units, while car sales were nearly 10 per cent down to 253,516 units.

The gloomy figures, which came despite the opening of the biennial Tokyo Motor Show last month and the recent launch of several new models by Japanese manufacturers, reinforced growing concerns in the country's motor industry about the timing of a possible upturn.

Nissan Motor, which on Friday announced a pre-tax loss of ¥28.9bn (\$150.6m), over double its loss in the previous half, said it was becoming extremely difficult to keep to

its goal of breaking even this

fiscal year and returning to

profit in fiscal 1994.

While the company was still pinning its hopes on stronger demand during the winter bonus season, the growing possibility that Japanese employees would receive lower bonuses this year casts a cloud over that scenario. "The recovery may not come until next year," Nissan conceded.

Honda, which saw its sales in October, excluding imports from the US, drop 28.4 per cent, said it was becoming very difficult to read the market.

Other Japanese carmakers are expected to confirm the difficult trading environment when they announce figures for the six months to September in the weeks ahead.

Meanwhile the rise of the yen is leading one Japanese carmaker after another to raise prices in the US market, a trend which many of them fear could result in a loss of market share.

Mazda became the latest company to announce a price rise, of 2 per cent, yesterday, following a 4 per cent increase in September.

## Australia to let Tiananmen exiles stay

By Nikkai Tait in Sydney

AUSTRALIA is to allow about 19,000 Chinese citizens, who were living in Australia at the time of the Tiananmen Square massacre, to apply for permanent residence, the federal government announced yesterday.

They had previously been granted only temporary residence.

Yesterday, announcing a number of changes in Australian immigration policy, Senator Nick Bolles, the Immigration minister, said Chinese nationals who were in the country at the time of the 1989 upheavals, and families who had joined them subsequently, would be granted permanent residence provided they met certain health and character criteria.

He estimated that about 25,000 Chinese could become permanent residents under the scheme. "We will basically give formal legal recognition to (their) status here by this decision," Mr Bolles told a press conference in Canberra.

He said the treatment of these individuals would be outside the "normal" migration programme, but the cost to the country would be limited. "Those people are here, they're

working here, they have very low dependence on social security.

"The cost of them coming into the community, the further integration of them, is minimal, if anything at all."

Meanwhile, asylum-seekers who arrive in Australia before applying for refugee status will also be entitled to permanent residence rather than the temporary residence they are now offered if their applications are successful, the government announced. Since 1990, people granted refugee status after they arrived in Australia, such as the Cambodian boat people, have been given only temporary residence permits.

And a third new measure, also announced yesterday, will create a new onshore permanent residence category for Chinese nationals who arrived in Australia after Tiananmen, and for Sri Lankans and nationals of the former Yugoslavia who live in Australia under special humanitarian concessions. To be eligible for this category, applicants must satisfy certain age, educational and visa conditions.

Immigration to Australia dropped sharply last year, from 107,391 in 1991-92 to 76,330 in the following 12 months.

## Trade figures for September boost markets, dollar

By Nikkai Tait in Sydney

BETTER than expected trade figures for September yesterday gave new heart to the Australian stock market and dollar, as investors concluded that the country is moving out of recession with a fairly strong export performance.

The balance of payments deficit in September was \$1.14bn (\$533m) on a seasonally adjusted basis. This compared with a deficit of \$1.3bn in August, and was below most market forecasts, which ranged between \$1.2bn and \$1.5bn.

On the trade front, Australia enjoyed a surplus in September, with exports up 9 per cent to \$5.64bn, while imports rose only four per cent, at \$5.53bn. This left a \$110m positive balance on merchandise trade, compared with a \$151m deficit in August.

The news caused the Australian dollar, badly buffeted in the recent stalled passage of the budget, to close almost one US cent higher, at 87.29 cents after touching 87.25 cents. On the stock market, shares also rallied strongly, with the all-ordinaries index closing 30.3 points higher at 2,132.4.

Some analysts, however, cau-

tioned that the trade figures had been boosted by exceptionally strong exports of gold, and that the previous weaknesses in the Australian dollar had aided exporters' performance generally. Gold exports in September jumped 87 per cent.

"There are still some grounds for pessimism about the immediate future of the current account," warned Mr Chris Caton, chief economist at Bankers Trust Australia. "The rest of the world remains quite weak, and we may not have yet seen all the valuation effects on imports of the lower Australian dollar."

Industrial unrest looms again on Australia's notoriously difficult waterfront after a breakdown in talks between Australian Stevedores and the Maritime Union of Australia over forced redundancies.

Australian Stevedores announced plans to shed 317 workers several months ago. This led to a brief national strike in September. Yesterday Mr John Coombs, ministerial secretary of the MUA, claimed the company had renewed attempts to sack employees, despite agreement by some 231 workers to take voluntary redundancy.



Jewish settlers from the occupied West Bank block a main road with blazing tyres yesterday to prevent Palestinians from reaching their workplaces. The settlers began demonstrating on Friday following the stabbing of a fellow settler by militant Palestinians

## Israeli poll is test for peace drive

By Julian O'zanne in Jerusalem

ISRAELIS go to the polls today to vote for new municipal

authorities in the first test of nationwide public political sentiment since the signing of the historic Israeli-Palestinian peace accord.

Although the 3.3m registered voters will be influenced by a range of issues from education to rubbish collection, political analysts say the poll will also indicate national feeling about the unfolding peace process.

Mr Yitzhak Rabin, prime minister, has said he views the elections as a vote of confidence by the public in his peace drive. The two greatest electoral battles, and the ones which

are most likely to provide a political weather vane, are in Jerusalem and Tel Aviv.

In Jerusalem Mayor Teddy Kolek, an 83-year-old veteran of Mr Rabin's Labour party, has been fighting a tough race to keep control of the Holy City against competition from Mr Ehud Olmert, a member of parliament from the right-wing Likud party.

Opinion polls show the two neck and neck after a campaign marked by personal attacks and questions about whether Mr Kolek is fit enough to stand another term of office.

Jerusalemites, who live on the fault-line of the Israeli-Palestinian conflict, are deeply concerned about security

issues particularly for the massive Jewish settlements nearby and the future status of the city.

Both candidates in Jerusalem agree on the unity of the Jewish West with the Arab East of the city and both back Jewish development of East Jerusalem.

But Mr Olmert favours a much more aggressive settlement policy, with Jews moving into neighbourhoods reserved under Mr Kolek's administration for Arabs.

Palestinians say a victory by Mr Olmert would exacerbate Arab-Jewish tensions in the city and make a compromise on its final status - such as joint or international administration - much more difficult.

However, the 80,000 registered Palestinians living in occupied East Jerusalem are divided about whether to vote in the poll, even if it would ensure victory for Mr Kolek.

In Tel Aviv, usually a more liberal and secular city than Jerusalem, Mr Ronni Milo, a former Likud police minister, is fighting Mr Avigdor Kahalani, a war hero from the Labour party, to succeed Mr Shlomo "Chich" Lahat, the long-time mayor.

Defeat for Labour in both cities could be a serious setback to the peace process and bolster the right-wing opposition, which has seemed increasingly divided and marginalised by Mr Rabin's initiatives.

## Kuwait ponders radical action

By Mark Nicholson in Cairo

KUWAIT is considering unprecedented moves to trim a KDI.5bn (\$3.3bn) budget deficit for the current year, including charging fees for public services, allowing foreign participation in upstream oil operations and possibly levying taxes on its citizens.

Mr Nasser al-Rodhan, Kuwait's finance minister, told the local Al-Sayassah newspaper that the "decision is approved" to charge for some services, though he did not specify which, or when fees would begin. Kuwaitis enjoy considerable subsidies on power, water and local telephone services.

Mr Al-Rodhan said the fees

would be introduced only after consultation with the Gulf state's parliament, which reconvened last week, and that low-income Kuwaitis would be exempt.

The minister also said that allowing foreign oil companies to participate with the state Kuwait Oil Company in drilling and exploration was "under study", adding: "The motives behind such decisions are economic."

Kuwait has since the Gulf war entered joint contracts with BP for technical support and onshore oil production. But upstream activities have been kept in state hands since Kuwait became the first Gulf state to buy control of its

oil production industry in 1975. Diplomats in Kuwait City said talks between KOC and some oil groups had already begun on possible opportunities, which Mr al-Rodhan said would offer Kuwait both fresh foreign expertise and, more particularly, foreign capital.

The government is doing more than ever to trim outgoings in the face of a budget deficit of KDI.49bn - including statutory expropriations for the Reserve Fund for Future Generations - and under the close eye of the country's increasingly economically sophisticated parliament. The true deficit in Kuwait's public finances is almost certainly bigger than the published figure, which does not include all

Kuwait's military spending or foreign debt repayments.

Mr al-Rodhan said that "until now and with our financial resources we can cope with the demands", but added: "The situation in the next stage will make it necessary for us to start thinking seriously of taxation."

Mr al-Rodhan's remarks follow leaks in Kuwaiti papers of an International Monetary Fund report, handed to the government in late August, which recommended cuts in subsidies, shrinking of the public sector and other revenue-raising measures, including limited privatisation.

Economists in Kuwait reckon that service fees could raise KD300m a year.

## Turkmenistan leads new rouble refugees

THE CENTRAL Asian republic of Turkmenistan yesterday introduced its own currency, the manat, launching it at a value of 30 US cents and 500 Russian roubles.

Turkmenistan is the fifth of the 15 former Soviet republics to introduce a fully independent currency - and it does so as other republics prepare to leave the rouble zone, many of them complaining that the conditions set by Russia for remaining in the zone are too strict.

Estonia, Latvia and Lithuania, the three Baltic republics, each has its own currency, while the smallest central Asian state, Kyrgyzstan, introduced its unit, the som, in May. Three other republics - Azerbaijan, Georgia and Ukraine - use coupons, all of which are highly inflationary.

Turkmenistan, with between

10,000bn and 15,000bn cubic metres of natural gas and oil reserves estimated by the government at 6.3bn tonnes, has eschewed backing - though not advice - from the International Monetary Fund, relying

on its own reserves of more than \$300m held in foreign banks to support the manat. Foreign observers in the capital, Ashgabat, expect the manat to fall to between 5 and 7 manat to the dollar when currency trading begins on Saturday. However, Mr Valery Otkersov, the deputy prime

minister in charge of the economy, says that "it is simply a matter of time before the currency is accepted at other currency exchanges and traded internationally".

Turkmenistan, whose regime under President Saparmurat Niyazov has retained tight control built round a growing presidential personality cult, is presenting itself as a stable location for foreign investment. Prices for the largely state-controlled staples are to be raised and a privatisation programme - which will exclude the oil and gas sector - is also due to be launched.

In spite, or because, of Mr Niyazov's gestures - such as erecting statues and portraits of himself all around the capital and his receipt last week of a bust from Turkmen businessmen containing 1.8kg of gold - most foreign diplomats and observers expect the Turkmen-



istan economy to prosper.

"Russia and Turkmenistan are the only two former Soviet republics which can stand on their own," said Mr Vadim Cherepov, the Russian ambassador. A US diplomat said that "if it follows the IMF recommendations it will have the most successful currency introduction of the former Soviet states".

Dissatisfaction with the rou-

ble zone may force other republics to follow. Last week, President Nursultan Nazarbayev of Kazakhstan was granted powers by his parliament to introduce a national currency after a demand by Russia that the roubles issued to Kazakhstan must be backed by its reserves of gold and hard currency reserves.

"We made all possible concessions [to Russia], but now

Moscow has asked us to do the impossible - hand over billions of dollars," Mr Nazarbayev was quoted by the Interfax news agency as saying at the parliamentary session last Thursday.

An agreement signed in September between Armenia, Belarus, Kazakhstan, Russia, Tajikistan and Uzbekistan committed these six republics to remain in the rouble zone under the control of the Russian central bank, in spite of the publicly expressed scepticism of many in the Russian cabinet. However, no new Russian roubles have yet been delivered to the other states, forcing them to use pre-1993 notes which the Russian central bank has withdrawn from circulation in Russia itself.

The Moldovan government has said it is to introduce its new currency, the leu, this month - rumoured to be on November 20.

## N Korea slated over inspection

NORTH KOREA'S failure to comply with international nuclear safeguards "has been widening" and continuity of some data was already damaged, the head of the UN inspection's body said yesterday, writes Michael Littlejohns in New York.

Dr Hans Blix, director-general of the International Atomic Energy Agency, said the longer verification was blocked the less assurance there could be that even North Korea's "declared facilities" were peaceful uses. Reporting to the UN General Assembly, he rejected Pyongyang's attempt at piecemeal verification, saying inspection must

be an integral whole. As he addressed the UN, the North Korean delegation published the text of a message agreeing to inspection "for the purpose of maintenance and replacement of the safeguards equipment". As for routine and random inspections proposed by IAEA, these would depend on progress in talks now being held with the US and on the agency's own attitude, which currently was one of "partiality and injustice". If IAEA did not respond positively to what North Korea characterised as its goodwill gesture, it must be held accountable for the consequences.



# Dinkins struggles to fend off challenger

By Jurek Martin in Washington

MR. RUDOLPH GIULIANI, the Republican-Liberal candidate, remains the slight favourite to oust Mr. David Dinkins, the Democrat, as mayor of New York today in the most eye-catching of elections across the US.

The latest polls put the two men on a virtual dead-heat, but this may understate support for Mr. Giuliani, the former federal prosecutor. Four years ago Mr. Dinkins beat Mr. Giuliani by only 2 per cent, having taken an apparent double-digit advantage into polling day.

Voter turnout among the city's minorities, especially blacks, will be pivotal.

In other closely watched races, Mr. James Florio, Democratic governor of New Jersey, still leads Mrs. Christine Todd Whitman, the Republican challenger, though by nothing like the 10-15 point margin he was accorded two weeks ago.

This race is seen as a mini-referendum on the policies of the Clinton administration. Both President Bill Clinton and his wife have campaigned actively for Mr. Florio, whose tax increases three years ago

The Wall Street securities house Kidder, Peabody has agreed to keep its headquarters and 3,000 employees in New York city in return for \$31m in tax incentives from the municipal government, writes Patrick Harverson.

The firm's decision was a victory for the city's mayor, Mr. David Dinkins, as the loss of Kidder would have been a blow to the city's shrinking tax base, its fragile morale and the mayor's re-election hopes.

Allen has been vigorously supported by the religious right-wing, though the key factor may be discontent with 12 years of Democratic rule.

Changes are also expected at the helm of several large and

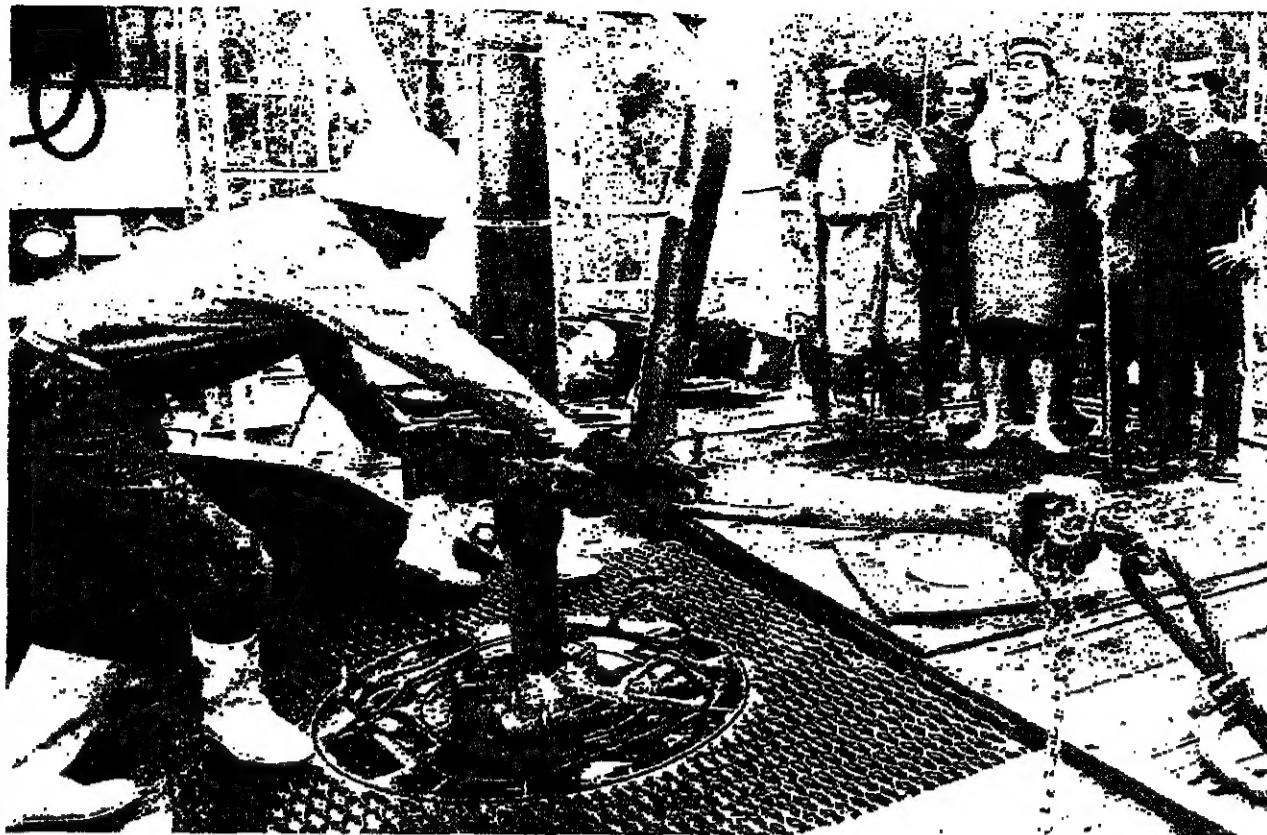
troubled US cities, partly brought about, as in Detroit and Atlanta, by retirement of the old generation of Democratic black urban leaders. Contests in Cleveland, Seattle and Minneapolis will be closely watched.

So, despite its different racial composition, will be the outcome in Miami, where Mr. Stephen Clark, an older white Democrat who speaks no Spanish, is favoured over a Cuban exile and an outspoken black Mr. Clark, however, is endorsed by the outgoing mayor, Mr. Adolph Suarez.

In California, Proposition 174 would provide education subsidies, in the form of vouchers worth about \$2,600 a head, useable at private schools.

In spite of the support of former President Ronald Reagan and leading national and religious conservatives, it is expected to lose today because of an effective campaign against it by Mr. Pete Wilson, the incumbent Republican governor, and by Mr. Clinton. But a more modest version could well carry the day in the future.

In Washington state, public opinion seems evenly divided on initiatives to curb spending.



INDIANS BRING DRILLING TO HALT AT AMAZON WELL

ABOUT 50 Indians from the Cofan tribe (pictured above), armed with spears and shotguns, forced workers at a Petroecuador site in Ecuador's Amazon forest to stop drilling last week, in a protest against planned oil exploration, writes Raymond

Colitt from Quito. The Indians later agreed to a temporary resumption of the exploratory work if Petroecuador's director came to the area for further negotiations. President Duran Ballen authorised drilling at the well in the Cuyabeno nature

reserve in September, but the work has since been surrounded by controversy over its impact on the area's indigenous groups. The Cofans are opposed to the building of an access road through their land.

# Salinas calls for civility in elections

By Damian Fraser in Mexico City

PRESIDENT Carlos Salinas yesterday called on all Mexico's political parties to sign a pact of civility to ensure "transparent and exemplary" presidential elections next August.

In his annual state of the nation address, President Salinas promised the contenders "full respect, abiding by the terms of the law, and proper conditions for them to present their options to Mexicans in full freedom."

Mexico's 1988 presidential election, which brought Mr. Salinas to power, was widely held by observers to have been marred by ballot-rigging.

Mr. Salinas's government has recently passed new democratic reforms, but they have been dismissed as inadequate by the main opposition candidate, Mr. Cuauhtémoc Cárdenas, and some foreign and domestic observers.

Despite the call for an electoral pact, Mr. Salinas suggested there would be no more significant concessions to the opposition.

The president appeared to rule out the possibility of foreign observers participating in the electoral process, saying "only Mexicans" would be the guardians of "our" democracy.

The president announced that Mexico's reserves rose to \$23.017bn at the end of October, from \$22.597bn. The high level of reserves seems to dispel fears that there has been an outflow of capital provoked by uncertainties over the North American Free Trade Agreement.

The executive branch is due soon to send the Mexican Congress legislation that will make the central bank independent.

The legislation may be in place, and possibly the head of the bank named, before the vote on NAFTA expected on November 17 in the US Congress.

# President's loose talk worries Guyana businessmen

The former Marxist is confusing investors, reports Canute James

THERE is peace, for the moment, between the office of Guyana's President Cheddi Jagan and the city council of Georgetown, the capital, which is dominated by the opposition party.

Mr. Jagan recently referred to the councillors as "rascals". The councillors said they did not fit the dictionary's definition of the word, and asked for a public apology from the president. They got it.

But some of Mr. Jagan's public statements are leaving a more lasting and confusing impression. He has described his own administration as a "working class government" guided by the ideology of the working class, which is Marxism-Leninism, and not the philosophy and practice of capitalism.

The statement created some consternation among local and foreign

business, which had happily accepted Mr. Jagan's undertaking to continue with the open market economic policies which he inherited a year ago when his People's Progressive party won an election and ended 28 years of government by the People's National Congress.

Mr. Jagan's later elaboration - to the effect that while the PPP was guided by Marxism-Leninism, the government which it had formed was not - did not temper concerns about the real direction of economic policy in the English-speaking country of 850,000 people on the north-east shoulder of South America.

"We in Guyana understand Presi-

dent Jagan, and we do not take this statement seriously, but people outside the country will," said Mr. Hans Barrow, president of the Chamber of Commerce. "We have simply elected a leader who speaks like this."

Mr. Barrow said, however, that local business leaders would understand why foreign investors and potential investors would be worried, and would wait before committing themselves when the president made such statements about ideology.

He said there must be a two-way flow of business confidence. Dr. Jagan, a 74-year-old dentist and once an avowed Marxist, moved towards moderation just before taking office.

The concern among local business leaders is that, although such statements about ideology might not reflect the government's economic policy, they could derail the expansion of an economy which, by any standard, has been doing remarkably well.

Several consecutive years of contraction ended in 1991 with growth of 8 per cent.

According to Mr. Asgar Ally, the finance minister, the growth continued in the first half of this year, and he has forecast expansion of 7.8 per cent for this year. Mr. Ally said this was the result of expansion in mining and agriculture. Once-billowing inflation is projected at 6 per

cent this year, helped mainly by stability of the currency following a 64 per cent depreciation which followed the floating of the currency in 1991.

Mr. Ally said higher export receipts, foreign investments and funds for balance of payments support had led to an improvement of \$52.4m in net international reserves in the year ended last June.

All this has not impressed the opposition PNC, which described the government's first year as "a failure". Mr. Desmond Hoyte, the opposition leader, said the economy had lost its momentum and vibrancy. "Business confidence has receded, there has been no new major investment, vital development projects ini-


tiated by my administration have been stalled, and... there is a marked paucity of disbursements from international financial institutions," he said.

There have been 33 new private investment projects valued at \$38.1m in agriculture, mining and financial services since the government took office," argued Mr. Ally.

There is continuing uncertainty, however, over the government's commitment to the programme of divestment of state enterprises inherited from Mr. Hoyte's administration. It suspended the programme soon after taking office, saying it would investigate earlier deals.

Mr. Ally has since said the government is committed to divestment and has listed 30 companies, including the national airline and the sugar company, which it wants to sell.

## CONTRACTS & TENDERS



# ESTONIA

International Tender for the sale of  
**INDUSTRIAL ENTERPRISES**  
by the Estonian Privatization Agency

Closing date:  
December 16, 1993

**Enterprise number, name, location (in brackets: type of business/number of employees at June 1993)**

<p><b>GENERAL INDUSTRY</b> [Capacity/turnover in EEK per year]</p> <p>EE-021 RAS Salla Viilandi Plant EE2900 Viilandi (Fruit and vegetable preserves [5 mio psc], canned meat [2.5 mio psc]/100)</p> <p>EE-027 RAS Bati ES EE2900 Bati (Turbocharger vacuum pumps, remote control ray therapeutic apparatus, mechanical manipulators, radioisotope thermoelectric generators, measuring devices, plastic parts/700)</p> <p>EE-084 RAS Viru Silur EE2200 Kadriina, Lääne-Virumaa (Syrup [7,200 t], starch [processing of raw potatoes 30,000 tons]/48)</p> <p>EE-333 RAS Vöru EPT EE2710 Parksepa, Vöru Maakond (Feed production [best feed 1,251 ha], metal processing, services/134)</p> <p>EE-436 RE Raasku Elekter EE2250 Raasku, Harju Maakond (Electrical control cabinets [3 mio EEK]/68)</p> <p>EE-437 RAS Eestri EE0014 Tallinn (Maintenance of electrical household appliances [2.2 mio EEK]/76)</p> <p>EE-439 RE Tallinna Heiksalasitehas EE0026 Tallinn (Manufacturing of recorded music tapes [5 mio psc]/27)</p> <p>EE-468 RAS Harju Asfaltbetooni tehase EE2270 Lagedi (Asphalt [25,000 t]/74)</p> <p>EE-470 RAS Tartu Asfaltbetooni tehase EE2400 Tartu (Asphalt [150,000 t]/69)</p>	<p>EE-298 RAS Elamu EE0107 Tallinn (Pre-cast concrete, construction of panel houses, structural metal products, warehouse for construction materials [pre-cast parts 200,000 cbm]/469)</p> <p>EE-300 RAS Narva Ehitus EE2000 Narva (Construction works [turnover 20 mio EEK]/315)</p> <p>EE-301 RAS Eesti Veevõrgust EE0017 Tallinn (Hydrotechnical construction [turnover 22 mio EEK]/263)</p> <p>EE-306 RAS Silbet EE2020 Kohila-Järve (Concrete products [800,000 cbm], mineral wool [40,000 cbm], metal products, building construction, rental of machinery and equip- ment for construction/69)</p> <p>EE-318 RAS Eesti Rannasõltus EE0003 Tallinn (Harbour asphalt [500,000 sqm]/48)</p> <p>EE-326 RE EMT EE0013 Tallinn (Construction of sewage networks, civil works [laying of 100 km pipes], renting of machinery and installations for road construction/908)</p> <p>EE-386 RE Siltsahtsuse nr. 423 EE0001 Tallinn (Construction of bridges [300-500 m], freeways and tunnels/148)</p> <p>EE-396 VE Raudraud EE0014 Tallinn (Construction of railways [40 km], general construction/100)</p> <p>EE-401 VE Berk EE2000 Narva (Pre-cast concrete products [30,000 cbm], structural metal parts, reinforced concrete parts, ready-mixed concrete and mortar/158)</p> <p>EE-485 RAS Via EE2400 Tartu (Road construction [20 km road surface, 6 km road]/70)</p>	<p><b>WOOD AND WOOD PROCESSING</b> [Capacity (S = Sawn timber, L = Logs) per year]</p> <p>EE-405 RAS Aegviidu Metsamajand EE2230 Aegviidu, Harju Maakond (Logging and transport, sawn timber, wooden articles [S 3,500 cbm, L 15,000 cbm]/83)</p> <p>EE-406 RAS Alutaguse Metsamajand EE2045 Kose, Ida-Virumaa Maakond (Logging and transport, wood processing, woodprocessing services [S 3,000 cbm, L 20,000 cbm]/64)</p> <p>EE-407 RAS Elva Metsamajand EE2442 Elva, Tartumaa (Timber trading, wood for paper production, sawn beams, firewood, sawn timber [S 7,000 cbm, L 20,000 cbm]/78)</p> <p>EE-408 RAS Hiumaa Metsamajand EE2300 Kunda (Wood trading, sawn timber, wooden construc- tion components, wooden articles, furniture [S 6,000 cbm, L 20,000 cbm]/70)</p> <p>EE-410 RAS Kilingi-Nõmme Metsamajand EE2045 Kose, Ida-Virumaa Maakond (Logging and transport, sawing and planing of wood, wooden articles, wood chips [S 4,000 cbm, L 10,000 cbm]/147)</p> <p>EE-411 RAS Kohila-Järve Metsamajand EE2045 Kose, Ida-Virumaa Maakond (Logging, firewood, sawn timber [S 4,000 cbm, L 8,000 cbm]/77)</p> <p>EE-413 RAS Maistra Metsamajand EE3422 Hagen, Rapla Maakond (Logging, sawn timber, windows, garden cottages [S 6,000 cbm, L 10,000 cbm]/49)</p> <p>EE-418 RAS Saaremaa Metsamajand EE3300 Kuressaare (Sawn timber, firewood, sawdust, furniture, wooden products, transportation [S 3,500 cbm, L 20,000 cbm]/85)</p> <p>EE-419 RAS Saare-Jaani Metsamajand EE2910 Kõidema, Viljandimaa (Timber trading, sawing and planing of wood, wooden cottages, wooden articles, retail trading, transportation [S 8,000 cbm, L 20,000 cbm, 200 cottages]/142)</p>
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**WHOLESALE / TRANSPORTATION**  
[Turnover in EEK per year]

EE-420 RAS Puiteks  
EE0012 Tallinn  
(Sawn timber, souvenirs, shelves, wooden  
cases, summer cottages, timber trading,  
transportation [S 3,000 cbm, L 10,000 cbm]/49)

EE-422 RAS Tudu Metsamajand  
EE2080 Sonda, Ida-Virumaa Maakond  
(Wood processing, timber trading [S 3,000 cbm,  
L 20,000 cbm]/64)

EE-423 RAS Valgamaa Metsamajand  
EE2500 Valga  
(Sawn timber, wood processing [S 4,500 cbm,  
L 20,000 cbm]/83)

EE-245 RAS Tameks  
EE0014 Tallinn  
(Office equipment, electronics wholesale  
[warehouse 11,000 sqm, 28 mio EEK]/60)

EE-246 RAS Eesti Põlvaks  
EE0006 Tallinn  
(Textile wholesale [store 2,700 sqm, warehouse  
5,000 sqm, 34 mio EEK]/70)

EE-245 RAS Tameks  
EE0014 Tallinn  
(Office equipment, electronics wholesale  
[warehouse 11,000 sqm, 28 mio EEK]/60)

EE-246 RAS Eesti Põlvaks  
EE0006 Tallinn  
(Textile wholesale [2 own shops, 2 rented  
shops, 33 mio EEK]/90)

EE-254 RAS Estaj  
EE0008 Tallinn  
(Shoes wholesale [1 rented shop, 17 mio EEK]/  
51)

EE-257 RAS Unversaal  
EE0001 Tallinn  
(Textiles, shoes wholesale [24 mio EEK]/58)

EE-260 RAS ABT  
EE0014 Tallinn  
(Food wholesale [warehouse 30,000 sqm,  
85 mio EEK]/225)

EE-269 RAS Ida-Virumaa Kaubabaas  
EE2020 Sonda, Kohila-Järve  
(Food and agricultural raw materials wholesale  
[16 mio EEK]/71)

EE-268 RAS Kopli Autobaas  
EE0017 Tallinn  
(General transportation [227 tonnes, average  
carrying capacity 7 L 9 mio EEK]/168)

**Tender Conditions**

- In accordance with its legal mandate, Eesti Erastamisagentuur (Estonian Privatization Agency "EPA") intends to sell the aforementioned enterprises by means of a tender in the following manner:
  - bids for a state owned joint stock company (organized as "RAS" under Estonian law) must be for the majority of the company;
  - bids for a state owned enterprise (organized as "RE" under Estonian law) or a small state owned enterprise (organized as "VE" under Estonian law) must be for its total operations;
  - bids for a plant must be for its total assets (e.g. buildings, landholdings, equipment and inventory), with inventory finally to be valued as of the time of acquisition;
  - bids for assets or parts of an enterprise must be for a separable unit of a RAS, RE, VE or plant, with inventory finally to be valued as of the time of acquisition.
- The tender is public and anyone may bid. Legal entities in which the State of the Republic of Estonia or its local municipalities or a municipality or state owned enterprise own and third or more of the share capital or of the voting rights may not bid.
- In deciding among the bids, EPA will take into consideration, among other things, the bid price, promises to maintain or create jobs, pledges to invest, and the business plan submitted, each of which will be considered part of the bid. Upon signing a contract, the successful bidder will be required to post a bond in order to guarantee these pledges.
- Interested parties can obtain enterprise and plant profiles without charge from EPA. EPA is not responsible for the accuracy and completeness of this information. Prospective bidders will receive written authorization from EPA to visit the enterprises or plants on the basis of which additional information will then be provided by the enterprise or plant management.
- Bids must be in writing and should be submitted in a sealed envelope marked only with the number of the enterprise or plant for which the bid is submitted.
- Bids must be received at EPA, Rätvala 6, EE0105 Tallinn, Estonia, no later than 2:00 p.m. (local time), on December 16, 1993 (the "closing date"). Bids will thereafter be opened immediately. Bids must be denominated in Estonian Kroon (EEK) or Deutsche Mark (DM), and must remain valid for one hundred and twenty (120) days after the closing date.
- Bids must be accompanied by a bond of five (5) percent of the bid price in the form of an irrevocable bank guarantee valid for one hundred and twenty (120) days after the closing date. The bid bond must be payable on first demand and will be forfeited if the bidder either fails to hold its bid open for the required period or refuses to sign a contract in accordance with its bid.
- EPA will decide on the bids within one hundred and twenty (120) days after the closing date. Bidders may present their bid within a period set by EPA. EPA is not bound to accept any bid. EPA may accept a bid other than the highest and may reject any of the bids at any time.
- The tender will be carried out according to applicable Estonian law.

EPA (Estonian Privatization Agency)  
Váno Sarmit      Dr. H. B. Schmidt  
General Director      Chief Consultant

Office hours for the EPA are Monday through Friday from 9 a.m. until 4 p.m. (local time).

For further information (enterprise profile, data on Estonia, visit authorization) please contact:

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## NEWS: WORLD TRADE

# Fiat gears up to boost Polish operation

By Kevin Done, Motor Industry Correspondent, in Krakow

FIAT, the Italian carmaker, is to expand its operations in Poland, with the local assembly of its Uno small car set to start early next year.

Initially Fiat will carry out the final assembly of the cars at its plant at Bielsko Biala in southern Poland from SKD (semi-knocked down) kits supplied from Turin.

The Italian group, which has established a dominant position in the Polish car industry

following its takeover last year of FSM, the former Polish state-owned car producer, will supply fully welded and painted Uno car bodies and other important components from Italy.

Production of the Uno is planned to begin in January, with output likely to total around 20,000 in 1994.

Fiat is also conducting a feasibility study into the building of a new paint plant at its outdated Bielsko Biala factory as part of its plans to invest around \$840m (£566m) in its

Polish operations from 1993 to 1995.

The new paint plant would allow the assembly capacity of the Bielsko Biala factory to be raised and would enable Uno production in Poland to move later to more sophisticated full CKD (completely knocked down) kit assembly, in which the Uno car bodies would also be welded and painted in Poland.

Overall Fiat car production in Poland this year is expected virtually to double to around 280,000 from 144,000 in 1992,

according to Mr Paolo Marinsek, managing director of Fiat Auto Poland.

Fiat's takeover of FSM, which was originally agreed with the Polish authorities in May last year, was finally completed six weeks ago, when the Italian carmaker assumed full operating control in the biggest privatisation deal ever reached in Poland and one of the biggest ever undertaken in eastern Europe.

The former FSM, which has now been renamed Fiat Auto Poland, is Fiat's sole produc-

tion location in the world for its smallest cars, the outdated 126, which is sold only in Poland, and the Cinquecento, which has been launched in the last 18 months for sale throughout Europe.

Fiat's strong local production presence had also allowed it to raise sharply its share of the Polish market for imported cars, said Mr Marinsek.

The Polish new car market was expected to total more than 200,000 this year compared with 193,000 in 1992 and Fiat expected to account

for around 55 per cent of all new car sales compared with 39 per cent last year, he said.

It expected to control around 31 per cent of all imported new cars and 55 per cent of sales of domestically produced cars.

Overall Fiat production in Poland should be running by December at 1,030 cars a day (280,000 a year) at its two plants, compared with 850 at the end of 1992 and only 350 a day in September 1991, when it began the restructuring of the FSM operations.

# Azerbaijan in Caspian Sea oilfields deal

By John Murray Brown in Istanbul

AZERBAIJAN has agreed terms with a consortium of western oil companies to develop oilfields in the Caspian Sea, in a contract worth more than \$7bn.

An official for the consortium, led by British Petroleum, Statoil of Norway and the US companies Unocal, Pennzoil and Amoco, confirmed yesterday that an agreement in principle had been signed in Baku to develop the Azeri and Chirag fields.

The agreement was initiated by the team set up by the Azeri authorities and the consortium members. It still has to be ratified and approved by the government, but it would appear to end months of deadlock as the Azeri government of Mr Gaidar Aliyev sought to renegotiate the contract terms. It is understood the consortium will split the proceeds with the Azeri

authorities on a 20:30 production-sharing basis, after development and loan costs have been deducted. The larger share would go to the Azeri.

The consortium is to pay the Azeri a signature bonus of \$500m, half paid when the agreement is ratified by parliament, the rest when an export pipeline deal is finalised.

The two fields, which are expected to be in production by 1996, comprise about 300 barrels of known reserves.

The original negotiations included a third field at Gunashli, which is already in production and operated by Socar, the state oil company. Gunashli accounts for close to a third of Azerbaijan's current total output.

The latest deal will spur negotiations about a possible export route for the oil. Turkey is urging Baku to use a proposed pipeline to its Mediterranean coast, avoiding congestion in the Bosphorus if the Black Sea route is chosen.

# Devaluation – and Asia – lift Italian exports

Robert Graham on a remarkable expansion into the newly industrialised countries

MR PAOLO BARATTA has the rare distinction of possessing the one problem-free portfolio in the Italian government.

As minister of foreign trade, he is presiding over the most remarkable export growth any industrialised country has seen in the past two decades. On average the value of exports in the first half of the year is up 19 per cent compared with the same period in 1992. They are also up more than 7 per cent in volume terms.

The growth is across the board. Italian exporters have been quick to switch away from the stagnant markets of the main industrialised economies into the fast growing economies of Asia and Latin America. But thanks to the free float of the lira, which has seen it depreciated by about 20 per cent since September 1992, Italy has also managed to increase its share of EC markets, notably in Germany.

One reason for the sharp rise is the fact that exporters are no longer under-declaring sales in the wake of the lira devaluation. In the two previous years exporters had taken advantage of an over-valued lira to under-invoice.

"Devaluation obviously has been important but I don't share the view that this is the

sole reason," says Mr Baratta. "One has to ask why British exports, which have enjoyed a similar competitive advantage from devaluation at the same time as the lira, have not performed nearly as well."

Among the strongest sectors of Italian exports have been industrial machinery and

for machinery is rising exponentially. Their less complex technology makes it easier to train people, both on the spot and in intensive sessions.

Trade with non-OECD countries in the first half this year was 26 per cent of total exports compared with 18 per cent for 1992 and 15 per cent in 1990. If this trend continues, non-EC exports will soon be more important than those of the Community. So far this year Italy's exports to the EC account for 54 per cent of the total. Two years ago they were close to 60 per cent.

If the trend continues, exports to the EC will be outstripped by shipments to other markets

mechanical goods, the core of which are machine tools. This industry, which has shrunk in the UK for instance, has remained well-rooted in central and northern Italy.

"These are not big groups producing very large sophisticated machinery like the Germans and the Japanese; but they are small and medium-sized, very flexible and ideal for finding niches between what the Germans and Japanese can offer," says Mr Baratta.

He believes both the size and flexibility of Italian engineering groups adapt well to the specific needs of the fast modernising economies of the Far East, where the demand

exports. The bulk of this is accounted for by machine tools and engineering goods, especially machinery for the textile industry.

Such are the business prospects in China that the ministry, in conjunction with its Chinese counterpart, is to set up a series of "base camps" there. These will be geared to small and medium-sized exporters, offering them space near industrial zones for logistical support, parts storage and training facilities.

There is also strong demand for Italy's consumer products as a result of the new income being generated in the fast growing economies. Clothing, shoes, luxury goods and furni-

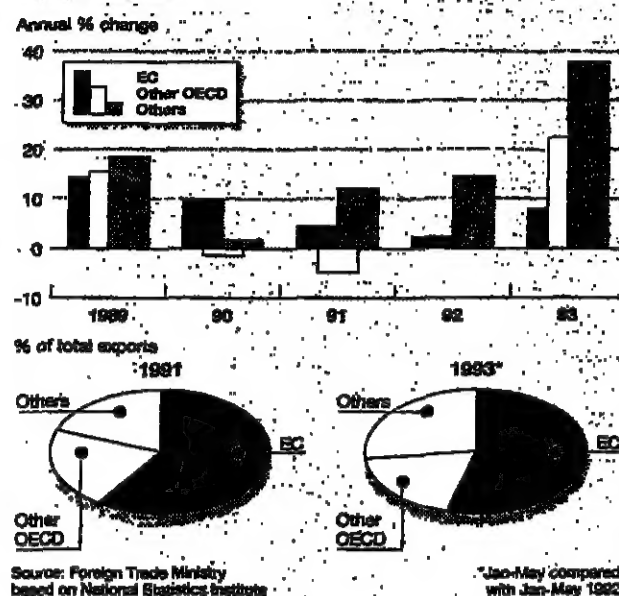
ture and top-range household goods are all doing well. They are competing less on price than they are on brand labels, design and quality.

Trade with non-OECD countries in the first half this year was 26 per cent of total exports compared with 18 per cent for 1992 and 15 per cent in 1990. If this trend continues, non-EC exports will soon be more important than those of the Community. So far this year Italy's exports to the EC account for 54 per cent of the total. Two years ago they were close to 60 per cent.

At the same time, with depressed domestic demand, Italy has seen its import bill drop in spite of the devaluation. Thus in the case of Germany, Italy has recorded a first half trade surplus of L2,734bn compared with a L3,955bn deficit in the same period in 1992. A similar trend was evident with France its second trade partner and to a lesser extent with the UK.

Italy's real exchange rate is now back to the level of the 1970s, when the current account was broadly in balance. In the latter part of the 1980s and in 1990-91 exports lost their momentum and the trade balance deteriorated. The annual growth in 1991 exports was down to 3 per cent.

Italy: exports



This reflected a combination of an over-valued lira and a period of sustained high increases in production costs, especially wages. Having long risen above inflation, wages for the past two years have been below inflation in the main manufacturing sectors. So far this year wage rises have been

held down to at least one percentage point below inflation, which has averaged 4.4 per cent a year. Exporters believe an agreement with the unions in July, which abolished the indexation of wages and linked rises to productivity, has introduced an important element of wage cost stability.

# Lloyd's to study Bosphorus safety

By John Murray Brown

LLOYD'S Register of London has been commissioned by a group of western oil companies to study shipping safety in the Bosphorus.

Lloyd's confirmed it had been commissioned by unnamed US oil concerns to present findings on environmental and navigational safety by mid-December as western oil companies expanding in Azerbaijan and Kazakhstan seek Turkish government support for an early decision on the export route.

The latest move is apparently aimed at assuaging Turkish concerns at the dangers posed by the projected increase in tanker traffic.

Separately, a study by Murray & Fenwick of London commissioned by the Turkish-led pipeline consortium concluded that limited increases in tanker traffic could be accommodated with a new radar system. The Turkish Transport Ministry has an outstanding tender for a computerised system, for which Marconi of the US and Thompson CSF of France have made proposals.

# Texan to invest DM550m in new Berlin complex

By Judy Dempsey in Berlin

A PROMINENT Texan property developer will invest more than DM550m (£233m) in building a new office, hotel and residential complex in the heart of Berlin's cultural centre despite the federal government's repeated delays in moving the entire administration to the capital.

Hines Interests Limited Partnership, which has been responsible for complexes ranging from Postal Square, Washington, to the 30th Street Station, Philadelphia, will develop the area around the Gendarmenmarkt. Now east Berlin's cultural centre, it was the city's banking quarter before the second world war.

This is the first time Hines has moved into the European property development market. Mr Gerald Hines, its chairman, said Berlin provided "a unique opportunity. This is an untapped sector. It is also a crucial axis between eastern and western Europe. There is no other city which offers so much potential."

In addition to developing over 50,000 sq metres of property on 8,400 sq metres of land, the company has been chosen by Sony to design the interior of its new European headquarters on Potsdamer Platz, which straddled the eastern side of the Berlin wall.

Unlike other property developers who arrived in Berlin after the wall was pulled down four years ago this month, Mr Hines has not encountered big difficulties over outstanding property claims. Instead of dealing with each individual case, the company bought the entire property from the Senate, or government of Berlin, which in turn will compensate any claimants.

Since 1990, property developers have already invested DM1bn in this part of the Mitte, or centre of old Berlin. The other prominent developers include Tischmahn Spier, which is building a Galerie Lafayette shopping and office complex, and the American Business Centre backed by Mr Ronald Lauder, heir to the US cosmetics magnate.

# Germany wins Russian steel plant contract

By Quentin Peel in Bonn

A GERMAN consortium headed by the big plant contractor SMS Schloemann-Siemag has won the contract for a DM1bn (\$604m) steel plant at Magnitogorsk, in the heart of Russia's Urals steel industry.

The cold reduction mill will have a capacity of about 2m tonnes of sheet metal a year, and will come into production at the beginning of 1997, according to an announcement from SMS company headquarters in Düsseldorf yesterday.

The 10-member consortium includes Siemens, the engineering conglomerate, Hochtief, the Essen construction company, and MAN Gutehoffnungshütte, as well as Magnitogorsk, the construction company in Magnitogorsk.

The contract is worth DM300m to SMS, which has just announced a 54 per cent

drop in profits for 1992/93, to DM33m on a turnover of DM1,968bn, because of the worldwide slowdown in investment plans, especially in the steel industry.

The company is involved in three other big projects in Russia, including another cold reduction mill (with Siemens) at Novo-Lipetsk, the modernisation of an aluminium plant at Samara.

A spokesman said yesterday that the contract was on a cash basis, and would be financed by revenues from steel exports of the Magnitogorsk Metallurgical Kombinat (MMK).

It does not have any export credit guarantees from Hochtief, the German export credit agency.

With production capacity of 16m tonnes and a workforce of 65,000 people, MMK is one of Russia's biggest steel makers.

# Speed up talks, says Gatt director

By Frances Williams in Geneva

MR Peter Sutherland, director-general of the General Agreement on Tariffs and Trade, yesterday urged the 116 nations taking part in the Uruguay Round of trade liberalising talks "to speed up progress in the negotiations" in order to conclude the round by the agreed deadline of December 15.

Pointing out that there were only 45 days left, he told the top-level trade negotiations committee that he believed it was "still within our grasp". However, he warned against leaving too many unresolved issues on the table for the final phase of the negotiations.

Talks on improving access to markets for farm and industrial goods have made slower progress than hoped.

Mr Sutherland said there had been some positive moves over the past month but criticised the "lamentable failure" of the Quad nations - the US, the European Community, Japan and Canada - to nail down the details of the tariff-cutting package agreed in principle in Tokyo last July.

He said the Quad, especially the US and EC, had a particular responsibility to provide leadership in the market access negotiations.

"Mutual recrimination is neither useful nor helpful," he added.

Trade officials present at the meeting said a number of delegations had also lambasted the US for creating other difficulties in the negotiations.

They were particularly critical of Washington's intention to take a blanket exemption for taxation under the proposed services accord, which would allow it to discriminate against foreign companies in tax matters in breach of fundamental GATT principles.

The US also came under fire over financial services, where it plans to bar Japan and developing countries from improved market access to its banking and insurance markets, and over its opposition to a strong Multilateral Trade Organisation to succeed GATT.

Under the present negotiating schedule, the hope is still to have "a well-defined approximation of the content, size and final shape of the overall market access package by November 15", alongside revised texts on the WTO and disputes settlement.

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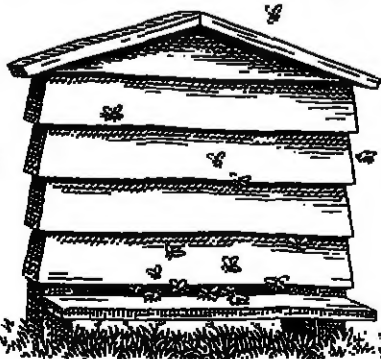
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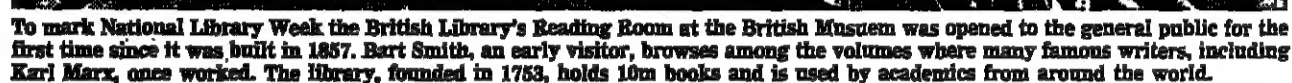
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## Britain in brief

British Coal is asking for a government subsidy after securing an order to export 50,000 tonnes to Stadtwerke Bremen in west Germany.

It is on course to export 1m tonnes this year against 600,000 tonnes exported last year.



Payments, which amount to about £130m this year, go to 66,000 farmers in difficult upland areas, particularly in Scotland and Wales.

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## NEWS: UK

## Unionists welcome peace move

Tim Coone and David Owen talk to leading Ulster loyalists

ULSTER UNIONISTS yesterday welcomed the announcement that the British government would put forward its own proposals for bringing about a lasting peace in Northern Ireland.

But they poured cold water on Downing Street's hopes that the party could be persuaded to rejoin round table talks on the province's future.

Mr Ken Maginnis, UUP deputy leader and security spokesman, said the party would not sit with Mr John Hume, the leader of the Social Democratic and Labour party, as long as the latter continued his talks with Mr Gerry Adams, the Sinn Féin leader.

"I will not have the IRA at the negotiating table with John Hume acting as their proxy," he said.

Speaking from Peru where he is observing elections, Mr Maginnis called on Downing Street to take a firmer line on terrorism if it expected to get Unionists back to the negotiating table.

In the wake of one of the worst weeks of sectarian violence in Northern Ireland for two decades "the greatest danger now is in doing nothing about terrorism, not doing nothing about talks," he said.

Mr Maginnis warned prime minister John Major not to be "panicked into new political measures like Margaret Thatcher was panicked into the Anglo-Irish agreement in 1985 by the Brighton bomb."

He rejected the Irish government's six-point plan, announced by Mr Dick Spring, the Irish foreign minister, last week, as a basis for restarting negotiations.

"The Irish government will try to seize the initiative, and if we move forward solely on the basis of the Spring principles, this opens the door to all sorts of interpretations which will only increase the level of violence," he said.

Mr John Taylor, UUP Europe spokesman, welcomed Downing Street's intention to bring forward its own proposals but described round table talks as "a mistaken formula."



Residents of Greysteel lay flowers outside the Rising Star Bar where seven died at the weekend

Pressure for such talks to resume was "misplaced", Mr Taylor argued, calling for new British proposals to be discussed instead in a series of bilateral meetings between Downing Street and the province's constitutional parties.

Mr William Ross, the party's chief whip, joined Mr Maginnis in calling for the government to give "careful consideration" to selective internment. "The aim should be to 'behead' terrorist organisations of their command and control centres," he said. Enough of the terrorist

"godfathers" were identifiable, according to Mr Maginnis, to make a difference.

Mr Ian Paisley, leader of the hardline Democratic Unionist party, made no direct reference to the possible resumption of round table talks in Commons remarks that were interpreted as surprisingly conciliatory.

But he criticised the Spring plan, saying many in Northern Ireland were "alarmed" by some of its contents.

Sir James Kilfedder, leader of the Democratic Popular Unionists, said it would be

"sensible and desirable" for talks between the province's constitutional parties to resume as soon as possible. He also called for unequivocal support for the security forces.

Mr James Molyneux, the UUP leader, has so far refrained from commenting in public on the increased pressure on his party to join round table talks, and, according to his office, will not do so until Wednesday at the earliest. The party's nine Westminster MPs plan to hold their weekly meeting on Thursday as usual.

## Insurer sees export pick-up in Europe

By David Dochow, World Trade Editor

TENTATIVE SIGNS of recovery from recession in Europe have been detected by NCM, Britain's leading export credit insurer.

In its latest report on the export outlook, it says fewer UK exporters are suffering losses due to non-payment, and payment delays have become less severe.

The quarterly study by the Cardiff-based NCM Credit Insurance shows that non-payment problems eased in 11 of the 12 EC markets, comparing the 12 months to the end of September with the comparable period to the end of June.

The odd man out in the survey was Luxembourg, which is not a significant export market for the UK.

Payment delays worsened by 12 per cent in the year to September, but this marks a significant improvement from the picture a quarter earlier, in which NCM reported a worsening of 52 per cent year-on-year.

"Our findings suggest that in some parts of continental Europe, the recession may have bottomed out," said Mrs Connie Randall, NCM's director for business strategy and reinsurance.

She nevertheless warns that bankruptcies are expected to be high in Germany in the final quarter of this year, with business conditions uncertain in Belgium, France and Greece. "In the short run, the outlook for UK exports to Europe remains bleak."

NCM, which provided insurance cover for £14bn of UK exports last year, accounting for 80 per cent of the market, reported a dramatic deterioration in payment delays in Italy - 72 per cent up in the year to end-September.

But in Spain and France, delays were reduced by 10 per cent and 18 per cent respectively.

Whereas one in five exporters to France experienced payment defaults in the year to end-June, just one in 11 reported defaults in the year to end-September.

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The following timetable is to apply:

- SALE OF TENDER SPECIFICATIONS: Between 4<sup>th</sup> October 1993 and 7<sup>th</sup> January 1994.
- PRICE OF TENDER SPECIFICATIONS: US\$ 20,000.-
- OPENING OF DATA ROOM: 18<sup>th</sup> October 1993.
- SUBMISSION AND OPENING OF ENVELOPE "A" (Applications to qualify): 17<sup>th</sup> January 1994. 3.00 p.m.
- SUBMISSION AND OPENING OF ENVELOPE "B" (Financial Bid): 22<sup>nd</sup> February 1994 3.00 p.m.

The address for all the above proceedings is: CAJA NACIONAL DE AHORRO Y SEGURO, Hipólito Yrigoyen 1750, Buenos Aires, República Argentina.

Further information respecting the business of Caja is currently obtainable from their financial advisers, KLEINWORT BENSON LIMITED, 20 Fenchurch Street, London EC3P 3DB, Tel.: 44 71 623 8000, Fax 44 71 623 5535



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# THE SLOVAK REPUBLIC

Tuesday November 2 1993

Slovaks were wary when their 74 year-old "marriage" with the Czechs ended peacefully at the start of 1993.

Now caution has been replaced by a quiet determination to succeed.

Anthony Robinson describes the new Republic's problems and prospects

## Adventure in statehood

ON New Year's day, 1993, Slovaks sloughed off a thousand years of subservience to Hungary and seven decades as the junior partner in Czechoslovakia and celebrated the birth of a sovereign, independent, internationally recognised republic.

But only six months earlier most Slovaks went into the crucial general elections of June 1992 intending to negotiate a new and looser union with their richer and more numerous Czech cousins, but not to be divorced from them.

Opinion polls showed that divorce was only sought by a small minority in both the Czech lands and Slovakia. Many Slovaks were in favour of seeking greater political and cultural autonomy, but fewer than 10 per cent voted for the openly separatist Slovak National Party (SNS). The 800,000 ethnic Hungarian minority was virtually unanimous in opposition to breaking ties with Prague as were the less politically organised Gypsy, Ukrainian, Ruthenian and other minorities living mainly in the east and south of the country.

But the election results put political power into the hands of politicians with incompatible ideas about acceptable terms for cohabitation in a common state. The Czech leader, Mr Václav Klaus, made

clear from the outset that a clean divorce was preferable to a messy, protracted squabble over the terms of cohabitation. As the Czechs were the richest and the most populous members of the 74 year-old Czechoslovak state Mr Klaus was able to determine the subsequent course of events.

Mr Vladimír Mečiar, the pugnacious Slovak leader who turned his Movement for a Democratic Slovakia (HZDS) into the dominant force in Slovak politics by his attacks on Czech arrogance and insensitivity to Slovakia's needs, found himself with no alternative but to negotiate the best terms for divorce.

In contrast with Yugoslavia, where the number of states, nationalities and cultural and ethnic groups involved was much greater, and where past violent conflicts over borders and between groups had left indelible scars, the Czech and Slovak divorce negotiations were tough but amicable.

But a mere 10 months of separate existence have already brought about palpable changes in perspective. On both sides of what is now an international border between the two states apprehension about the possible unforeseen consequences of separation has been largely replaced by a determination to make independence work. Both states

insist on their European vocation and their desire for the fastest possible integration into a suitably extended European Community and revamped Nato.

A young Slovak diplomat from the east of the country, the part which was most opposed to the idea of rule from Bratislava and gave the lowest votes to Mr Mečiar, summed up the reaction of many of her generation. "We did not want to be cut off from Prague and the Czech part of our country. We felt nervous about being alone in this part of the world. But now I am amazed to find how little we have in common with the Czechs and how tied up we are in trying to solve our own problems here in Slovakia."

For Prague, the divorce meant the end of an implicit economic subsidy to Slovakia, at the cost of a 30 per cent loss of trade between the two new states. It also freed the Czechs from entanglements inherited from the inter-war republic whose borders were drawn to include a large Hungarian minority at the end of the first world war.

For Bratislava, independence promised the psychological and spiritual satisfaction of permitting the majority ethnic Slovaks the opportunity to develop and assert their own national personality at home and abroad after a millennium as a largely ignored or subservient people.

But it has required an enormous effort to build up the institutions and trappings of a sovereign state. For more than 70 years many of the most able Slovaks moved to senior jobs in Prague, and few were prepared to return to Bratislava to create a new state, especially under the political conditions created by the HZDS victory in the elections.

In spite of the difficulties, however, Slovakia now has an independent central bank, a national currency (hastily introduced in six weeks instead of the expected six months after the divorce), a national army and security forces and diplomatic representation abroad. It has obtained international recognition and



Slovaks celebrate the constitution of their new Republic: a bloodless addition to the European family

membership of a wide range of international institutions, including the IMF, the World Bank and the EBRD. It has also signed a separate association agreement with the EC and gained membership of the Council of Europe, after the last minute withdrawal by Hungary of objections linked to the rights of ethnic Hungar-

ians. Both economically and strategically, however, the new Slovakia inherited substantial real and potential problems. Already hard hit by the collapse of Comecon markets and the end of the Cold War, the disintegration of the highly integrated Czechoslovak economy has led to a sharp drop in trade with the Czech republic

at a time when recession in western markets has reduced the already limited ability to shift to OECD markets. Unemployment is high and foreign investment remains low while the pre-divorce wave of Czechoslovak privatisation has not been followed by a similarly determined all-Slovak version. Without rapid privati-

sation and higher foreign investment Slovakia's ability to build a less energy and raw material intensive economy more attuned to international trade will remain in doubt.

The potential certainly exists for a successful transformation of the economy, given the high level of technical skills and current low wage rates. In the service sector tourism also has good prospects, once the unfriendly, rigid state hotel structure is replaced by small scale private and local tourist initiatives. This year Slovakia is expected to earn only \$200m from tourism, a fraction of what could be earned by creative exploitation of a rich natural endowment which includes the high and low Tatra mountains, much untouched countryside and a plethora of castles, churches and cultural treasures.

A lot depends on Slovakia's ability to project itself properly as a peaceful, stable, democratic country, at ease with its neighbours and not only open to foreign investment but able to create the banking, legal and institutional framework that potential investors can feel familiar with. This is not always the case and some small investors have found difficulty seeking redress for alleged irregularities.

But the main question hangs over Slovakia's ability to forge a mutually satisfactory relationship with Hungary. This is highlighted by the dispute over Slovakia's unilateral decision to go ahead with completing the Gabčíkovo dam on the River Danube, and irritating resistance to the ethnic Hungarian minority's desire for dual Hungarian-Slovak place names in areas of Hungarian settlement and the right not to use the Slovak suffix added to female Hungarian surnames.

The dam issue, which aroused greater passions in Hungary than merited by the controversial ecological issues alone, is currently under adjudication by the International Court at the Hague. The Slovak side points out that it was Budapest which first acted unilaterally by

pulling out of the joint scheme. Mr Jozef Moravčík, the foreign minister, also compares the high degree of cultural and linguistic autonomy enjoyed by Slovakia's Hungarian minority with the assimilation pressures to which ethnic Slovaks have been subjected in Hungary.

Wise heads in Bratislava have tried to defuse potential tensions by quiet diplomacy, fearing that the intemperate words sometimes used by Mr Mečiar when referring to both the Hungarian and Gypsy minorities could inflame passions and contribute to the re-ignition of latent ethnic tensions throughout the wider Carpathian region. The rise of nationalist parties in Hungary and Romania underlines the risks involved in playing the ethnic card.

Opinion polls indicate that Mr Mečiar still retains a core following in his home territory of central Slovakia. In the scenically attractive villages of the Váh valley and the Tatra mountains. These are the areas economically hardest hit by the collapse of the arms industry and the loss of Comecon markets on which Slovakia was so heavily dependent before the death of the Soviet system.

It is far harder to find supporters in Bratislava, the capital which is tucked away at the extreme south west of the country, only 65kms from Vienna, or in Košice, the regional capital of eastern Slovakia, even though unemployment and the attendant social pains are lower in these two big cities.

Mr Mečiar may not be the ideal politician to lead Slovakia into independence, but his latest deal with the Nationalist Party (SNS) should give him the parliamentary majority needed to get next year's tough budget approved and fight off left wing opposition demands for early elections. The international financial institutions are helping to fund investment projects, pending the hoped for awakening of foreign private investment.

The next years will not be easy. But independence seldom comes cheap.



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## Foreign investors study pace of privatisation, reports Patrick Blum



## THE SLOVAK REPUBLIC III

Profile: VLADIMIR MECIAR pioneered Slovak statehood – now he must make it work

## Odd man out with a will of steel

VLADIMIR MECIAR will take his place in the history books as the man who led Slovakia to independent statehood, writes ANTHONY ROBINSON and PATRICK BLUM.

But 11 months after jubilant crowds ushered in the Slovak republic, the stocky 51-year-old Prime Minister's opinion poll rating is languishing as doubts accumulate over his ability to lead this nation of 5.3m towards a prosperous, secure and democratic future.

Last month, in an ornate, gilded room in the former Archbishop's palace which now functions as the seat of government, Mr. Meciar parried questions about his ability to retain loyal support and political allies, his attitude to ethnic minorities and more powerful neighbours, his prospects for the economy and his vision of Slovakia's future.

On the hustings he jabs the air with his finger, cracks jokes and extracts belly laughs from the crowd. In private he is extraordinarily immobile, big but not tall, with a strong handshake and expressionless face in which only his eyes seem to move. During 90 minutes of conversation there were no flashes of inspiration, no vivid phrases, no clear vision of the future Slovakia. Just flat words.

"We have four priorities: to establish a democratic system and democratic institutions; introduce market mechanisms; guarantee the security of the state and ensure integration with the European Community," Slovakia, he adds, is in transition from one system to another "in the midst of a dangerous river and moving from one bank to another". It might take five years

to get to the other side, he adds.

Buoyed up by the strong showing of the former communist-era parties in the recent Polish elections, the Party of the Democratic Left (SDL), led by the youthful Mr. Peter Weiss, is pressing for early general elections and hoping to administer the coup de grace to the current prime minister and his demoralised HZDS.

Is Mr. Meciar worried by the left-wing threat? Would he be prepared to become, say, Minister of Transport, in a future coalition government led by the former communists in which the HZDS was relegated to a junior role?

He is not amused by the question. "All this talk of elections is premature. If there are to be elections I will decide the timing, and the results will not turn out as my opponents think. The HZDS is a pragmatic, non-ideological party of the centre. It is true we are under attack from left and right, but we are a stabilising factor in Slovak politics."

"At the last election my opponents accused me of being an SSB and a KGB agent and a rapist of small children, but my party went on to become the largest party with 38 per cent of the vote and we formed the government, not them."

His reply revealed the kind of steel will to power which his various political oppo-

nents have underestimated at their peril before. Mr. Meciar has shown in the past that he is never more dangerous than when his back is against the wall. A former close political aide describes him as "a genius at outmanoeuvring his rivals, a player without rules who cannot tolerate peers and is driven by his complex personality into a confrontational approach both at home and abroad."

Appointed as premier of the Slovak part of the Czech and Slovak Federal Republic after the June 1992 elections, he was deposed nine months later when he lost a vote of confidence in the Slovak parliament. Behind the vote lay dislike of his authoritarian ways among the liberal and Christian Democratic members of Slovakia's People against Violence, the anti-communist equivalent to the Czech Civic Forum, and disquiet in Prague at the increasingly separatist tone of his pronouncements.

Deprived of power, Mr. Meciar became an implacable foe of the new government led by Mr. Jan Carnogursky, and whipped up growing popular resentment against both the "morally superior" attitudes displayed by the federal President, Mr. Vaclav Havel, and the Bratislava government which he portrayed as unable to stand up for Slovak economic and political interests.

As unemployment in the Slovak arms factories and other big plants dependent on Comecon trade soared to four times the Czech level, the tireless Meciar barnstormed the country, whipping up nationalist fervour and promising to raise Slovakia's status in the world, complete the controversial Gabčíkovo dam project on the River Danube and improve the economic and moral wellbeing of its people.

Portraying himself as a martyr sacrificed on the altar of Czech arrogance and Slovak government weakness, the one-time boxer and largely self-educated enterprise lawyer, reached a peak of popularity at the general elections of June 1992 after addressing packed crowds in pre-election meetings.

After his first post-election meeting with Mr. Vaclav Klaus, the victor in the Czech elections of the same date, it became clear that the self-assured, fanatically pro-market Czech leader preferred a quick divorce from Slovakia to endless recriminations and a loose confederal arrangement which would have left the Czech republic footing much of the bill for Slovakia's greater internal autonomy and higher profile abroad.

Both men had a unique opportunity to appraise the other. Whatever his private thoughts Mr. Klaus has taken care never to criticise his Slovak counterpart in personal terms, and makes it understood that, whatever his reservations, he fears that whoever comes after Mr. Meciar could well be worse.

Mr. Klaus, who has a Slovak wife and campaigned for Slovak votes during the 1992 election campaign, recognised that Mr. Meciar faced a harder task, with far fewer resources, in building his new state.

The Slovak leader acknowledges that "founding the new state brought many problems. The Czechs started preparing the technical basis for the divorce in January 1991 but Slovakia only began from July 1992. While the Czechs inherited the federal institutions there were no equivalent

to these Prague based institutions in Slovakia." At the same time the divorce left the new Slovak state with a legacy of over-sized arms, heavy engineering and consumer goods factories orientated towards the defunct Comecon market.

Since January, he points out, the government has gained international recognition, joined a raft of international institutions, including the IMF, World Bank and



Meciar: we're crossing a dangerous river

EBRD, set up a new independent central bank, created a separate national currency, and forged a national army.

But, after recounting the achievements of the last few months, Mr. Meciar complained that all this had been done against the background of what he described as "a campaign of hatred against Slovakia and a wave of hostile propaganda which assailed Slovakia and its official representatives". When questioned about Slovakia's image, however, Slovak diplomats ruefully concede that in many cases the problem has been created by Mr. Meciar's own abrasive style. The issues which have provoked most international criticism include the unilateral decision to go ahead

with completion of the Gabčíkovo dam despite Hungarian objections, and insensitivity to the human and other rights of ethnic Hungarian and gypsy minorities. These are all complex issues with no easy solution. They cry out for quiet diplomacy and a search for reasonable compromise.

But subtle diplomacy and a desire for compromise are not easily associated with Mr. Meciar's confrontational approach to political problems. Like most of the grey men in his cabinet and Mrs. Anna Nagyova, his blonde special adviser on international as well as domestic issues, Mr. Meciar speaks no foreign languages, apart from the closely related Czech and a smattering of Russian. But he insists on representing Slovakia abroad whenever possible.

In an international setting he always looks the odd one out, even among a gathering of fellow leaders from post-communist Europe. At this year's annual international get-together in Davos, Slovak diplomats watched in despair as the Mr. Meciar and his group sat talking among themselves in Slovak as other leaders split into ever-changing informal groups exchanging gossip and building informal ties.

At a recent summit meeting in Budapest of the Central European Initiative, the 10 nation grouping which includes Italy and Austria as well as eight central European states, the Slovak leader fiddled constantly with a recalcitrant translation machine as Mr. Klaus, the Czech leader, replied to questions in fluent German and English.

On his return from Budapest Mr. Meciar announced his intention to obtain new fighter aircraft from Russia to counter-balance similar purchases by Hungary, raising the prospect of a mini arms race between states with ethnic minorities on both sides of the border.

Mr. Meciar does not compare well with the founders of the original Czechoslovak state. Having led the move to independence he seems to lack the human and political skills needed to inspire Slovak citizens of all ethnic groups to make the best of their difficult inheritance. What is more, having won independence, he seems to understate the importance of building bridges in this potentially dangerous region for a small country with suspicious neighbours.

## POLITICS

## The centre is strained

THE victory in Poland of leftwing political parties with communist roots only four years after the collapse of communism throughout eastern Europe is leading to a reappraisal of political probabilities throughout the former communist world, writes ANTHONY ROBINSON.

The Polish left's turnabout has aroused particular interest in Slovakia, Poland's southern neighbour, where the Party of the Democratic Left (SDL), led by Mr. Peter Weiss, closely resembles Poland's Democratic Left Alliance guided by Mr. Alexander Kwasniewski.

In Poland, the election results were as much a defeat for the fragmented anti-communist parties of the Solidarity-era opposition as a victory for the re-packaged communist-era politicians.

There are similarities in Slovakia where the centre stage is tenuously held by the Movement for a Democratic Slovakia (HZDS). This movement, a loose alliance bound together more by the personality of Mr. Vladimir Meciar than any ideological cement, was formed in 1991 after the disintegration of Slovakia's "velvet revolution" alliance called People Against Violence (VPN).

To its left the HZDS is challenged by the neo-communists, to its right by the Christian Democrat party (KDH), led by Mr. Jan Carnogursky, the Slovak National Party (SNS) led by Mr. Ludovit Cernak, and smaller parties representing ethnic Hungarians.

But the ability of the HZDS to command the centre ground has been undermined by the inability of the government to deliver the promised economic recovery and growing disillusionment with the suspicious, combative personality of its leader.

The erosion of confidence in the HZDS and deep, often personal animosities, between leaders of the non-communist parties has inevitably rebounded to the benefit of the former communist SLD. Like their Polish counterparts, Mr. Weiss and key allies such as Mr. Pavel Kanis, the SLD dep-

uty chairman, have spent the last four years trying to shed the stigma of the Soviet-imposed communist past, and present themselves as a respectable, democratic party, eligible for membership in a future government coalition.

At the last elections in June 1992 the SLD already emerged as the second largest party with 26 seats in the 150 seat Narodna Rada, the single chamber Slovak parliament. The SLD was dwarfed by the HZDS which won 74 seats won but came out well ahead of the Slovak Nationalist Party (SNS), which was the only party to stand unambiguously in favour of Slovak independence.

The SNS won only 15 seats and agreed to become a junior coalition partner in the post-election HZDS-SNS government.

This government collapsed last March when Mr. Ludovit Cernak, the SNS leader, took his party out of the coalition after attacking Mr. Meciar for his alleged authoritarian style and his closeness to politicians

## Stalinist memories are likely to deter a left-wing comeback

such as the Defence and Culture Ministers with shady political antecedents and ties to Czechoslovakia's Moscow-dominated past.

Last month, however, Mr. Cernak agreed in principle to take his party back into the government, mainly because his reluctance to risk early elections which the former communists might win proved stronger than personal and political antipathy to Mr. Meciar.

A renewed HZDS-SNS coalition, still to be finalised at the time of writing, would create a secure parliamentary majority and ensure passage of next year's budget. It would give a reprieve to Mr. Meciar whose shaky minority government has been dangerously weak since Mr. Milan Kucsko, a former actor who was a popular idol of the VPN movement in

KEY FACTS		
Area	49,035 sq km	
Population	5.3 million	
President	Michal Kovac	
Current (since Feb. 1993)	Slovak Crown (SK)	
Exchange rate (Czechoslovak crown)	1991 \$1=23.48 CSK	
	1992 \$1=29.29 CSK	
ECONOMY		
	1991	1992
Real GDP growth (%)	-15.8	-6.0
Annual average % growth in:		
Consumer prices (%)	56.0	10.3
Industrial production (%)	-25.4	-14.0
Convertible currency trade		
Current account balance (\$m)	n.a.	175
Exports (\$m)	n.a.	3,420
Imports (\$m)	n.a.	3,636
Trade balance (\$m)	n.a.	-205

(1) Until 1991, companies with more than 100 employees, (2) from 1992, companies of all sizes.  
(2) 1992 figures are estimates  
Source: Deutsche Bank Research

1990, was sacked as foreign minister five months ago. Mr. Kucsko left the HZDS after fierce arguments with Mr. Meciar over policy towards ethnic minorities and neighbouring states. He has since formed his own breakaway party, the Alliance of Independent Democrats, with eight seats in parliament.

The new alliance patches up the government but does not reduce the underlying challenge from the former communist SLD or the risk of sharing the fate suffered by Poland's Solidarity era parties. But Slovakia does not share Poland's deeper political culture or its self-confidence as one of the historic nations of eastern Europe. The reform communists, who form the backbone of the Polish Democratic Left Alliance, were committed to reformist politics before being swept from power in 1989 and have been able to attract support from the new business class which has since emerged.

Slovakia has no such self-confident past. The communists who ran Czechoslovakia in the Stalinist years and after the Soviet invasion of 1968 were, almost to a man, grey mediocrities who showed an insensitivity bred of ignorance to tradition and the environment.

Nowhere was the deliberate destruction of the creative and productive middle class more complete than in former Czechoslovakia which before the war, together with its large German and Jewish minorities, formed perhaps the most successful democracy in continen-

tal Europe. And the Slovak part of the old republic, singled out for investment in heavy industry, suffered the most.

Given this history, the risk of a return to power of parties with their roots in Slovakia's communist past is a sobering one. The men who lead the party seem bright and intelligent. But with Slovakia's slow record of reform to date, many of the old nomenklatura bosses are still running the various bureaucracies, the big state owned factories and the security forces. Several former communists are already in the HZDS government. It is difficult to escape the conclusion that once the reformed communists regained power in their own right it might be difficult to remove them.

Ironically the widespread sense that the former communists represent the most likely alternative to the HZDS, together with the personal rivalries and relative inexperience of the non-communist opposition parties, are the main factors keeping Mr. Meciar in power.

"Meciar is a confrontationalist. With him Slovak politics cannot be brought to the level needed to modernise the economy and society," says Mr. Igor Uhrík, vice-president of the SNS and one of a handful of expatriate Slovaks who have returned to contribute their skills and foreign experience to building up the new state. But Mr. Meciar is in charge, and while he remains that way he will be the one to choose the timing of the next election to his greatest advantage.



SLOVAKOFARMA

## This is Slovakofarma Hlohovec

Slovakofarma, Joint Stock Company, situated in the west Slovak town Hlohovec, is the biggest and the oldest enterprise for drug production in Slovakia. Its roots date back to the year 1941, when the joint stock company Slovenská alkochemie was founded, a chemical plant for the processing of dry poppy-heads out of which morphine was isolated. The firm became a national company later on and for more than 50 years has developed a production programme of large-scale chemical substances and medicines forms. On 1st May 1992 Slovakofarma obtained the legal status of Joint Stock Company.

The main range of activities of Slovakofarma, JSC, at present:

- research, development, production, purchase and sale of chemical single and multiple component drugs, pharmaceutical and technical subsidiary substances, medicine preparations and drugs for human and veterinary use, cosmetic products, protective working chemicals, tooth-pastes, preparations for fortification and specific modification of feed-stuff,
- purchase, processing and sale of medical and aromatic herbs and preparations of them, foreign trade.

Products:

The firm is specialized in production of solid dosage such forms as tablets and coated tablets, hard and soft gelatine capsules, effervescent tablets, cardiovasculars and gastrointestinal-als, vitamins, calcium compounds and analgesics including opium alkaloids, as well as chemical substances for pharmaceutical production.

Besides this the division of medicinal herbs based at Malacky, Western Slovakia, implements the production of teas and tea mixtures in conventional packaging and tea bags, spirit macerates and microbiological diagnostic products.

Ondrej Gattinar, PhD., General Director

## Summary of the Year in Figures

In Slovak crowns mil.		
Year ended December 31,	1992	1991
Sales	2,267	2,082
Net income	209	171
Basic capital	1,291	1,291
Number of employees	2,048	2,250

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## Anthony Robinson traces the tortuous road to Slovak independence

A map of Slovakia showing its geographical features and location in Central Europe. The map includes the following elements:

- Scale:** A scale bar at the top left indicates distances in miles (0 to 50) and kilometers (0 to 80).
- Neighboring Countries:** Poland to the north, Czech Republic to the west, Hungary to the south, and Ukraine to the east.
- Major Cities:** Bratislava (capital), Košice, Banská Bystrica, and Martin are marked with dots.
- Rivers:** The Váh River is shown flowing through the country. The Danube River is shown to the south, with the Gabčovo Dam marked on it.
- Mountains:** The High Tatras and Low Tatras are indicated with clusters of triangles.
- Other Features:** The Váh River is shown flowing through the country. The Danube River is shown to the south, with the Gabčovo Dam marked on it.
- Inset Map:** A globe in the bottom right corner shows the location of Slovakia within Europe.

Even Kosice, the second biggest city in Slovakia, passed



It has been a rough start for the new Republic, made worse by a collapse in bilateral trade with the Czech republic, rising unemployment and recession in western markets. But, aware that there is no turning back, Slovaks have to press ahead with building their new state into a viable member of a future enlarged European Community.

Overall, military production at ZTS Martin declined from \$K10.3bn in 1996 to \$K2.7bn last year, but production of the heavy T-72 tank and other armaments has resumed. "As far as we could see, other countries including members of the Conference on Security and Cooperation in Europe continued to sell their armaments, and nobody really helped us to convert our factories. We think we should do what we are able to do, though the situation now is more difficult because we have lost our former markets to competitors," Mr Skirko says. Foreign interest in the T-72 tank remains high, especially from potential third world buyers with little cash.

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## Employers must justify unequal pay



The European Court of Justice ruled last week that the equal pay provisions of the EC treaty require employers to demonstrate an objective justification of the existence of appreciable differences in pay between male and female workers doing work of equal value.

The Court's ruling was made in a case referred by the English Appeal Court involving a female speech therapist, who brought an action against her employers for sex discrimination.

Mrs Pamela Enderby claimed that her pay, in a profession that is overwhelmingly staffed by women, was less than that for members of comparable professions, such as clinical psychologists or principal pharmacists, which are largely staffed by men.

The European Court of Justice was first asked whether employers were bound under the EC treaty provisions to justify objectively differences in pay such as those which had occurred in this case.

The Court said that, although normally the onus of proving alleged facts in support of a claim lay with the claimant, the burden should shift when it was necessary to avoid depriving workers, who appeared to be victims of discrimination, of any effective means of enforcing their rights to equal pay.

It then said that, in spite of the fact that the circumstances of the present case did not constitute *de facto* discrimination, they did constitute a *prima facie* case of discrimination.

Given that workers would be unable to enforce their rights to equal pay before national courts if evidence of a *prima facie* case of discrimination did not shift the burden to the employer of showing that the difference was not in fact discriminatory, the Court ruled that, in circumstances such as those of the present case, it was for the employer to show that an objective justification existed for the difference in pay.

The Court was also asked whether it was sufficient justification for the difference in pay if the rates of pay for the jobs in question had been decided by collective bargaining processes. It said

the fact that rates of pay had been decided by such processes did not preclude a finding of *prima facie* discrimination, where the results of the collective bargaining showed that two groups with the same employer and the same trade union were treated differently.

The third question asked by the English Appeal Court was whether or to what extent the fact that the differences in pay were attributable to a shortage of candidates for one job and the need to attract them by higher salaries could serve as objective justification for the pay differential.

The Court said that such a finding of fact was for the national court. However, it made it clear that, if the national court was able to determine what proportion of the increase in pay was attributable to market forces such as those suggested, the pay differential would be objectively justified to the extent of that proportion.

If, on the other hand, the national court had not been able to determine the particular proportion, then it would have to assess whether the rate of market pay was significant enough to provide objective justification for part or all of the difference.

*C-157/92, Enderby v. Franchay Health Authority and health secretary, ECJ, EC, October 31 1993.*

Application to reopen Commission merger proceedings inadmissible.

An application by third-party shareholders for the annulment of a decision by the European Commission refusing to reopen its merger proceedings in relation to a particular transaction has been ruled inadmissible by the European Court of Justice.

The Court said that applicants had failed to demonstrate that they were directly and individually concerned as required by the Rome treaty provisions.

The Commission's decision that the transaction between the two companies did not fall within the scope of the merger regulation did not of itself affect the substance or extent of the shareholders' rights.

*T-24/92, Zurich Holding SA and others v. Commission, CFI, AG, October 28 1993.*

EUROPEAN COURT CHAMBERS, BRUSSELS

English arbitration law, probably the best system in the world, is far from perfect. But it is made worse than it needs be by the unjustified assumption of most arbitrators and lawyers that they are bound to follow the adversarial and predominantly oral procedures developed in the English civil courts.

This shortcoming, together with other orthodoxies which drive arbitration away from London to friendlier and cheaper shores, has been tackled in a draft arbitration bill drawn up by the Departmental Advisory Committee on Arbitration, chaired by Sir Johan Steyn, the Appeal Court judge.

If adopted, it would improve English arbitration law and make it more understandable. With those objectives in mind, the committee entrusted the drafting of the bill to a privately financed group (although it was revised by a parliamentary draftsman) and instructed it to follow the structure of UNCITRAL's Model Law of Arbitration, now followed by the legislation of 15 states.

Many of the substantive provisions of the bill would make the English arbitration law more acceptable internationally. For example, recent decisions by the Court of Appeal have reversed the orthodox view that disputes as to whether a contract was invalid from its beginning always fell outside the arbitration clause. The Appeal Court decisions confirm that the arbitration clause is separable and survives an invalid contract. To make sure that this useful advance is not overturned by the House of Lords, the committee has included a separability clause in the bill.

## Light in arbitration's obscure corners

A H Hermann examines the Steyn committee's draft bill

But the committee was not so daring when it came to the question of the arbitrator's power to decide that he has jurisdiction to hear a case.

The arbitrator's decision can always be appealed to a court. That is as it should be. However, the process is greatly abused by parties who wait to see whether the result of the arbitration is to their liking before launching an appeal.

A decision, at the end of a long arbitration procedure, that an arbitrator did not have jurisdiction makes the resolution of a dispute unnecessarily expensive. For this reason the UNCITRAL Model Law requires that any appeal against the arbitrator's exercise of jurisdiction must be made at the beginning. The committee, however, shrank from following the Model Law on this.

Explaining this and other aspects of the draft bill at the Freshfields arbitration lecture recently, Sir Johan, agreeing with a recent Law Commission report, said he did not see why arbitrators should be obliged to follow the courts' technical rules of evidence.

This was particularly true in relation to the labelling of technical and production records as "hearsay" evidence. Appellants without a proper issue of law on which to



base an appeal often argued that such records were "hearsay" and not admissible evidence, and that lack of evidence was an issue of law on which they could base an appeal.

The bill would avoid all this by providing that "the tribunal shall determine all procedural matters including the admissibility, relevance, materiality and weight of any evidence".

This provision of the bill also ought to do away with the widely held assumption of English arbitra-

tors and lawyers that they are bound to adopt the purely adversarial and predominantly oral procedures peculiar to common law jurisdictions but unknown in half the industrialised world.

Sir Johan said he could see no justification for such an assumption, either in statutory law or in precedent. If adopted, the bill would make the English arbitration procedure both faster and cheaper.

The committee did not, however, adopt any recommendation on the

crucial difference between the English and most other arbitration systems which allow awards to be made according to a perception of fairness or on the basis of internationally recognised principles of law. The orthodox English view is that arbitration clauses allowing the arbitrator to go by his conscience rather than by the law - clauses commonplace in civil law countries - are invalid in England.

Sir Johan appears to sympathise with the Model Law where it provides that, if parties agree, the arbitrator may decide according to what appears to him to be right and fair.

The Court of Appeal moved in this direction towards the recognition of the *lex mercatoria* - the free floating "international law of merchants" - when it held in the 1987 *Deutsche Schachtbau* case that it was not against public policy to enforce in England a Swiss arbitration award applying "internationally accepted principles of law governing contractual relations" - *lex mercatoria* for short.

If this is not against public policy in the case of a foreign award, why should it be against public policy in the case of an English award? To adopt the Model Law approach would bring English arbitration closer to the conciliation procedures favoured not only in civil law countries but also in the Far East and particularly in China, with its fast-growing economy reaching out for more intensive international trade. The Steyn committee has not dared go this far - yet.

The author is DJ Freeman senior research fellow in international trade law at the Queen Mary and Westfield College, University of London

## Michael Smith on the European Commission's intervention in plans for a Portuguese power plant

### Burst of competitive energy

The European Commission has demonstrated through its intervention at a Portuguese power plant that it will pursue its ambitions to liberalise the European electricity market in spite of strong opposition.

Using European competition law, it has restricted to 15 years the period in which Electricidade de Portugal, the state-owned monopoly, will have exclusive rights to the electricity that will be produced from a power plant at Pego which is due to be completed in 1996.

The consortium building the plant, including the UK's National Power, had expected to have 20 years of exclusivity. It says it will not be hurt by the change, owing to a compromise deal with the Commission. But the EC intervention has set a precedent that, say EDP's lawyers, could affect the funding of future power stations in Europe.

The Pego case comes at a time when the Commission is fighting

hard to gain acceptance for its "third-party access" plans, which are aimed at liberalising the European gas and electricity markets. It argues that a free market in all goods throughout the Community can be achieved only if energy is traded without restrictions imposed by monopolies. Competition would force a reduction in electricity prices, it believes.

Most of Europe's electricity companies, and in many cases the states that own them, have put forward arguments against the Commission's proposals. Unbridled cross-border competition along the lines proposed by the Commission, they say, would endanger security of supply. It would also reduce incentives for companies to invest in transmission systems.

Large sections of the European

Parliament agree. MEPs have tabled 324 amendments to the 80 articles in the third-party access directive. If the directive is adopted, it is likely to be in a much diluted form.

However, the Commission has made it clear that it will use existing law to ensure that monopolies cannot exert what it considers to be too much influence over markets. Its chief tool is competition law, including article 85 of the Treaty of Rome prohibiting restrictive agreements which distort trade between states. The Commission's interpretation is that an exclusive supply obligation of more than 15 years is restrictive.

Ironically, the Portuguese electricity system is making considerable progress in introducing competition in energy generation and

supply along the lines the Commission hopes to achieve through its third-party access directive.

The Pego plant, which may eventually supply about 10 per cent of the country's electricity, is being built by a consortium that includes National Power, Electricité de France and Endesa - the UK, French and Spanish utilities - as well as EDP. Most European countries would balk at providing such an broad for foreign companies.

The Commission therefore apparently tried to avoid damaging Portugal's progress. It agreed that, after a 15-year exclusive agreement, Tejo Energia, the company set up by the consortium to operate Pego, will be able to sell surplus capacity to third parties providing EDP does not need it.

That harms none of the deal's

participants, since EDP will be provided with all the electricity it needs from the plant, and the consortium is likely to find ready buyers in other countries, including Spain, for any excess.

But such a compromise may not be so easily achieved elsewhere. Countries without the capital to build the power capacity they need - especially in southern Europe - may find it more difficult to gain funding from the private sector. "Banks want the certainty of a strong revenue stream over a long period if they are to provide funds. The danger is that the Commission's approach will restrict the way that finances is raised," says Mr David Marks, a partner with McKenna & Co, a law firm that advises on big power projects including Pego.

The Pego decision and others that follow are likely to prove fertile ground for merchant banks and the lawyers.

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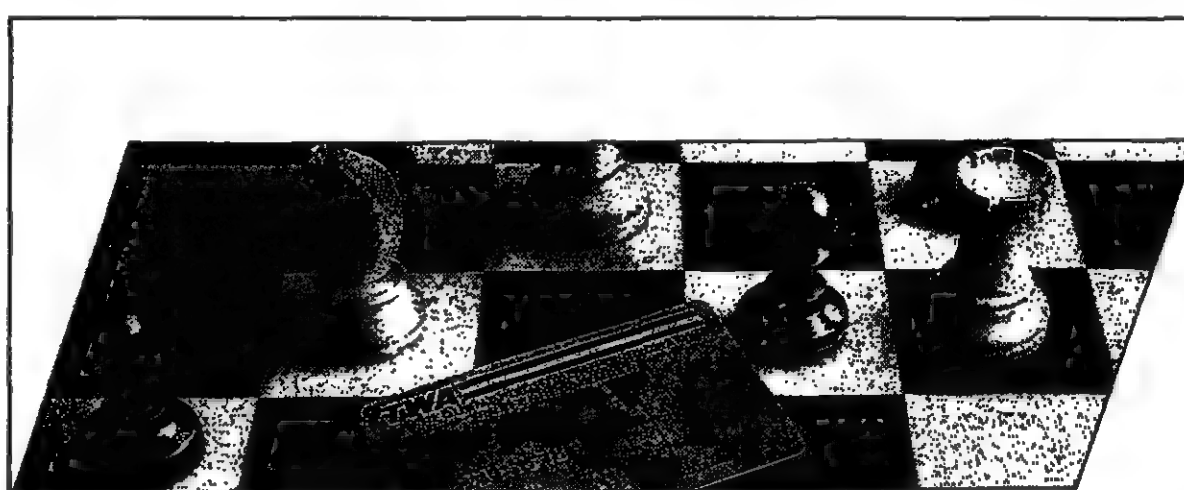
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## TECHNOLOGY

## Science turns to ancient diets

Archaeologists and water scientists are joining forces to identify the diet and diseases of people living thousands of years ago, by studying their semi-fossilised faeces.

The Institute of Archaeology at University College, London, is working with Thames Water's Spencer House laboratory in Reading to develop the new gene amplification technique of polymerase chain reaction (PCR) for use on "paleo-faeces".

According to Mark Spigelman of the Institute of Archaeology, these are quite common in dry parts of the world.

"In the southwestern US, there are cave-fills of the stuff," he says. "My oldest specimen is from a 19,000-year-old campsite in Egypt." Spigelman, who has already used PCR to find traces of tuberculosis bacteria in ancient skeletons, believes that paleo-faeces contain enough surviving genetic material (DNA) to be detected by the technique.

He hopes to identify fragments of genes both from disease-causing bacteria and from the plants and animals in the ancient diet.

Colin Fricker, Thames Water microbiology manager, has an obvious professional interest in identifying traces of human faeces, in order to test water quality.

"We have been developing new methods of detecting E. coli, a bacterium found in faeces, for some time, so it was an incentive to improve the sensitivity and accuracy of these tests," he says.

The latest PCR test for E. coli, developed by Thames Water, picks out a bacterial gene for an enzyme called beta-glucuronidase.

The scientists plan first to look for this gene in ancient faeces and then move on to others.

Recent experiments have shown that the DNA molecule is far more robust than scientists had imagined a decade or so ago.

PCR has recently been used to extract and amplify traces of genetic material from insects trapped in amber more than 100m years old.

Clive Cookson

The sight of Chris Waddle missing a vital penalty at a World Cup soccer semi-final three years ago may not appear to have much to do with electricity use, but the behaviour of television viewers after England lost to Germany led to a record surge of power that night.

The management of power demand is a complex task. To ensure it continues to be handled smoothly, from times of normal use to emergencies such as hurricanes, the National Grid - which distributes electricity in England and Wales - has spent £32m on a computerised energy management system it believes is the biggest and most modern in the world.

Electricity demand in the area covered by the National Grid can vary between 16,000 megawatts early on a summer morning to nearly 48,000 MW on a very cold winter evening. Power consumption also rises sharply after popular TV soap operas or blockbuster films. Viewers go up after a long evening's viewing, switch on the lights and put on the kettle for a cup of tea.

This is what happened after Waddle and his team-mates missed the deciding penalties at the end of one of the most exciting matches of the championship, televised from Italy. Electricity use briefly shot up by as much as 2,800 MW after the game, equivalent to the output of a very large power station.

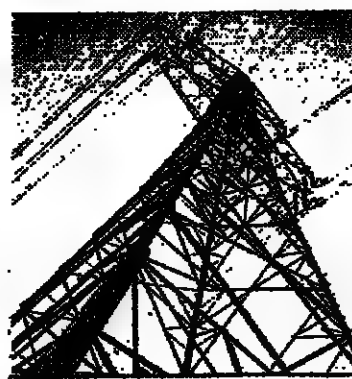
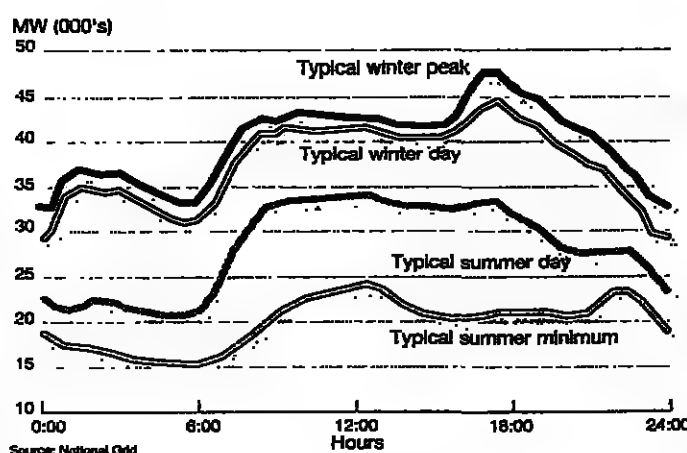
On an average day, enough electricity is used in England and Wales to keep 10m kettles boiling round the clock; in winter, the equivalent is 17m. This is what the National Grid's new system, formally opened last month after 100 days in faultless operation, is designed to manage. From the new control centre at Wokingham, Surrey, with the help of four area centres in St Albans, Birmingham, Leeds and Bristol, electricity is routed around the 7,000km of the country's transmission routes.

By spending some £80m on its new control network (including the energy management system), the National Grid has streamlined its activities and closed two regional sites at Manchester and East Grinstead. It now has an array of new computers and sophisticated software capable of evolving in line with future advances in technology.

The previous system dated from 1970, when the national control centre was at London's Park Street, south of the River Thames. Its Argos computers made by Ferranti of the UK - now the subject of a humiliating 1p a share bid from General Electric Company of the UK - were kept running until earlier this year, although new equipment was also added over the past two decades.

"In the early 1980s, we realised we

## Electricity demands in England and Wales



## Power to the people

The UK's National Grid has just invested in a sophisticated control network, writes Andrew Fisher

needed to get to the next level of technology," says John Tomlinson, system control manager. After going out to tender, National Grid narrowed the choice down to Ferranti and Minnesota-based Empros Power Systems Control, then owned by Control Data of the US but now part of Siemens, the German industrial group.

Having decided on Empros, which has more than 400 energy systems installed around the world, the National Grid went to great lengths to ensure its systems would be as error-free as possible. It subjected the hardware and software to 14 different audits each. Testing was so rigorous that the test plans took up 45 feet of paper.

As a result, the company believes it has a system which is as reliable as it is possible to obtain. Roger Hunter, EMS project manager, is suitably cautious, however, when he says: "As far as we know, at the present time, there are no errors." The system was also delivered on time and within budget, a rarity for such big computer projects.

The National Grid went to such lengths to ensure both quality and robustness because it wanted a system which could do much more than its previous one. The Empros

system, with its host of computers, workstations, display units and 4m lines of software code (capable of running 46 applications and 40,000 displays) is not just designed to switch energy around the grid system, including the import of power from Scotland (where distribution is handled by the generating companies) and France. It also has a far greater capacity to deal with emergencies such as freak storms or terrorist bombs.

To ensure the utmost degree of fail-safe security, each centre has three big Cyber computers from Control Data for normal, stand-by and emergency use. If a disaster causes the Wokingham centre to go down, national control can be switched to St Albans which controls the London region.

Here, there is a fourth Cyber, normally used for training - faults such as those caused by the 1981 blizzards have been modelled into the simulator with frightening realism - but which can be switched to run the whole grid. "You can't have a day off while you put something right," says Tomlinson.

In the old system, this degree of integration did not exist. Nor was it able to perform advanced applications at a level far beyond the normal ones of monitoring power flows, voltage levels and other daily

## Functions

With the Empros equipment, says Hunter, the grid system can be subjected to "limits and capabilities never before possible." Readouts on any aspect of the grid system can be obtained in seconds rather than minutes; 22,000 separate items of information are checked every five seconds.

This vast flow of data is needed not only to update the rate of daily power flows from the privatised energy groups to the regional electricity companies (who own the National Grid), but also to deal with the unexpected.

"This system can handle the most onerous of power station conditions," adds Hunter. The Empros system was tested to see how it would stand up to all types of use from normal demand to the impact of lightning strikes and hurricanes.

Now its system is in operation, the National Grid is keen to work with Empros and Siemens, on foreign contracts. "The whole market place is worth nearly \$1bn (£714m)," says Tim Kanealy, general manager of Siemens Empros, which has a share of around 20 per cent. He sees strong possibilities in eastern Europe and other developing areas, despite scarce funds, as well as in industrialised countries wanting to update electricity distribution.

## Nancy Dunne on a new a software system which will aid analysts

## The world's data at your fingertips

In 1990, China spent \$2m (£1.4m) on US motor vehicles. The figure for this year totals as much as \$230m for the first six months alone.

US vehicle sales have been rising throughout Asia. Between January and June, sales increased in Japan by 4 per cent over the same period of 1992. In Taiwan, they jumped by 11.4 per cent, but in Hong Kong they soared by 543.7 per cent.

These trends were gleaned from US Commerce Department data. Normally, they would take weeks to spot, but a new computer software system called World Trade Atlas now brings the figures to trade analysts and exporters in seconds.

Donald Brasher, president of Global Trade Information Services (GTI) of Columbia, South Carolina, wrote the program.

As a trade consultant to Thailand and Bangladesh, he saw the need for increased access to international trade data through computer technology and improved data for policy decision-making.

One of his clients recently requested information about the US wood trade in the wake of the spotted owl controversy, which froze logging on many federal lands. A few seconds of key pushing revealed a 53 per cent increase in the value of rough wood exports to Japan and one of 56 per cent to China in the first half of this year, while the volume of exports remained flat. The conclusion was that price rises, averaging more than 50 per cent, had failed to depress demand.

The development of CD-Rom technology and subsequent price reductions which make it available to small entrepreneurs are driving the information revolution, says Brasher. The World Trade Atlas is a prime example.

"Anyone can publish a CD-Rom," he says, noting that CD-Rom players are rapidly becoming standard personal computer peripherals. After six months on the market, Brasher predicts sales of between \$300,000 and \$500,000 this year.

He has only 15 subscribers, but they are important ones. They include the US Chamber of Commerce, the American Association of Exporters and Importers, the International Footwear Association and the Retail Industry Trade Action Coalition. Their numbers are growing. Brasher expects to have between 40 and 50 clients by the end of this year and at least 100-200 by the end of 1994.

GTI is signing leading international distributors to market the program globally. Next year, he expects to add EC and Japanese trade data to the program and he may include numbers from Chile and Canada. Each month, Brasher updates the software from data acquired from US government computer tapes. It is reorganised and sent to subscribers by express mail on a CD-Rom disc.

The World Trade Atlas provides information for a three-year time comparison. By hitting a key, subscribers can display product and country information; sort data by market share or percentage change; switch from country to product sequencing; compare quantity and average unit price data among countries; shift between export and import data; and check the balance of trade data for the world and individual countries.

The service is particularly helpful for exporters, Brasher says.

Brasher learned the ways of Commerce Department data production when, as a young analyst there, he helped to reconcile the differences between US import statistics and Hong Kong's export figures. Now, the Commerce Department is his chief competitor. It sells a system which transmits information electronically. Although it cannot produce trends in seconds like the World Trade Atlas, it has become more accurate since the introduction of an automated interface that reduces data entry errors.

The atlas is sold by GTI on a subscription basis for \$4,920 a year (\$2,690 for educational institutions).

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## MANAGEMENT: THE GROWING BUSINESS

Richard Gourlay looks at proposals for a private-sector, long-term credit institution in the UK

## A challenge to the chancellor

Medium-sized UK companies have long yearned for the sort of secure, long-term finance available to Germany's Mittelstand. If proposals presented by the Small Business Bureau to Cabinet ministers ahead of this month's Budget are accepted, they may soon get it.

The idea is for the creation of an independent, private-sector funded, long-term credit institution similar to Germany's Kreditanstalt für Wiederaufbau (KfW), which would disburse fixed-rate, seven-year loans.

This so-called Enterprise Fund, its supporters claim, would provide funds for expansion on substantially easier terms than anything currently available to UK small and medium-sized manufacturing firms. Even if the proposal does not make it to Kenneth Clarke's dispatch box - and most pre-Budget ideas floated by the small business lobby do not - the idea is being studied as part of the review of business financing being undertaken by Anthony Nelson, the Treasury economic secretary.

The Enterprise Fund is the creation of Peter Hanratty and Mark Gheerbrant, bankers at Industrial Bank of Japan International, and is one of five proposals which will be announced by the Small Business Bureau this week.

The new institution would issue 10-year eurobonds guaranteed by the UK government. The authors envisage an initial £2bn being raised over five years, a figure which seems less ambitious set beside the £7bn lent by the KfW in Germany in 1991.

The fund would lend to companies introduced by UK commercial lending institutions, which would jointly administer the scheme. The draft proposal suggests banks would start by taking 25 per cent of the credit risk, the fund, and ultimately the government at the time the bonds were repaid, would bear the remaining 75 per cent.

The authors say banks would be encouraged to approach the fund because clients would be pressing for access to seven-year, fixed-rate money (probably at an all-in cost of about 10 per cent after a 300-basis point profit for the bank).

Established businesses with sales of at least £3m and up to £50m would be the target, effectively positioning the Enterprise Fund above the cut-off level for the government's Loan Guarantee Scheme.

Because the fund is a private-sector institution, the authors believe the government's guarantee would not affect the size of the PSBR, a concern that torpedoed proposals for a long-term credit institution two years ago. It is far from clear, though, that this hurdle has been overcome.

The key attraction of the proposed plan is that it would reduce one important area of risk in the expansion of a business - the risk of commercial banks withdrawing credit. Barry Baldwin, head of the Small Business Bureau policy unit, says many businesses decide not to invest for expansion because bank covenants are too extensive.

They do not allow for quite as much deterioration in financial ratios at times when either the trade or economic cycle has turned down.

Enterprise Fund money would be structured, the authors say, with the minimum of onerous covenants. Only in exceptional circumstances would loans become repayable before maturity. Academics have welcomed the initiative. They argue the UK has suffered from the absence of a KfW or Japan's three, long-term credit institutions, which played a big role in post-war economic reconstruction.

But there could be considerable resistance from the commercial banks, without whose co-operation the fund would get nowhere. Crucially, they would need to be convinced the new institution could work alongside them and would not compete for business.

Given the chequered history of the Loan Guarantee Scheme, where default rates have been relatively high, the government would also need to be persuaded it is not being asked to guarantee what are effectively unbankable propositions.

Mark Gheerbrant - 071 489 6843. \*\* Road to Recovery - Small Business Bureau, 071 976 7262.

Managers making the move should be prepared to leave behind not only the perks but also many of the qualities that made them successful in a big company, according to the Industrial Society. "An individual may have had up to a 10-year time-frame for planning and been good at it," observes Johnson. "In a small business decisions may have to be taken in 10 minutes."

Some managers, meanwhile, feel insecure in organisations where there may not be formal performance assessment. Geoffrey Burn, a former director of information

systems with a large retailing organisation, says: "In my old company I knew exactly where I was. We had clearly defined objectives and formal systems of appraisal. In my new company we have none of that. One can feel insecure."

The suspicion may be mutual. Owner-managers are often alarmed by professional managers, says Mike Anyon, who now works as sales director with RS Colour, a Manchester-based printing company employing 70 people. He used to work for Du Pont and Philips Electronics. "It has to be a two-way learning process. But I am getting a lot of satisfaction from teaching a very enthusiastic sales force the best practice in the business."

Lisa Wood



## Firms fail to benefit from single market

The European single market appears to have been a non-event for most small and medium-sized UK manufacturing businesses. According to Pera International, the management and technology consultant, 70 per cent of those interviewed for a survey said they had derived no business benefits since borders were formally removed on 1 January 1993.

The research demonstrates that British reluctance to exploit new opportunities stems from continued export difficulties, additional expenses and the effects of the recession. Less than half of all UK respondents found transportation or paperwork easier since the start of this year; one quarter stressed the difficulty of meeting new EC technical quality standards.

"Opportunity or Threat: The Single Market Reality for SMEs," available from Am Fitzgerald, Pera International, Pembroke House, Lythard Mill Lane, Swindon, Wiltshire, SN5 9LS. Tel: 0793 775553.

## Changing terms for commercial agents

Businesses which use commercial agents have been giving them notice to avoid the impact of European Community regulations.

The regulations, which cover the legal relationship between the parties and come into effect on January 1, generally strengthen the position of agents. In particular they provide for compensation where an agreement is terminated by the principal other than for breach of contract (for further discussion see FT Growing Business page, 27 July).

Stephen Sidkin, of London solicitors Fox Williams, reports that some manufacturers and suppliers are reappointing their agents as distributors or franchisees, buying and selling goods for their own accounts. Others are offering them direct employment.

"In brief they are taking on

liability as employers as opposed to facing the quasi-employee benefits which agents will soon enjoy."

The Department of Trade and Industry issued a draft compliance cost assessment in September which estimated that annual compensation costs could be anything between £5,000 and £80,000 per sales force.

Sidkin points out that unless the notice brings the contract to an end on or before 31 December, companies will have to honour their existing terms as well as comply with the new regulations.

## Revising standards for UK managers

Senior management standards developed by the Management Charter Initiative are to be adapted so that they can be applied to small and medium-sized organisations.

The MCI, an independent body set up by employers and backed by the government, seeks to improve the performance of UK managers.

Vlad Stancu, the MCI development director, said it was felt necessary to apply draft senior management standards to the particular needs of smaller organisations.

## Support for the small firm

The role of trade associations and similar small-firm support bodies is discussed in a 37-page booklet which has just become available.

Written by Ray Parr, previously manager of the Department of Trade and Industry's Small Firms Information Centre in the Midlands and now a volunteer counsellor in a local enterprise agency, it sets out to help readers choose the most appropriate representative organisation. It details the cost of membership as well as listing the services provided.

Parr believes the value of support is often overlooked.

"All too often attention is concentrated on that essential and often necessary trip to the accountant, bank manager and solicitor, but that should not obscure the potential of a fourth leg to the support framework."

"Any other body is published as a private venture, price £2.95. It can be ordered from Caterpillar Publishing, Caterpillar House, 19 Derington Drive, Christchurch, Dorset BH23 4ZU.

## Happy to be cut down to size

Sean Titterton confirms that his friends thought him adventurous, if not foolhardy, when he joined a small, impecunious company after 19 years with a UK clearing bank. His instinct was to look for an employer of a similar size when he opted for redundancy from the Royal Bank of Scotland, rather than relocate.

Titterton, a marketing manager, assumed his temperament and experience would be better suited to a big company.

One Hundred failed applications later he welcomed the opportunity to join Lessor Grafik, a small Hertfordshire-based company employing 16 people. Today he admits those previous assumptions were incorrect ones. Although he gets frustrated at times, particularly over

the lack of formal structure, he enjoys the challenge of a business that has to respond quickly to changing customer tastes.

Titterton is one of the thousands of managers who have successfully moved from a big company to a much smaller one. But according to Oliver Johnson, national campaign leader for economic development at the Industrial Society, most people making the transition can benefit from professional training.

There are many sources of such expertise - business schools, for example - but one of the most recent is a scheme called Connect for Growth funded by London's Training and Enterprise Council (TEC) and run by Enterprise Partnership, a London-based training

and management consultancy. The scheme matches the skills of professionals and managers who have been unemployed for six months with the needs of small companies. After two weeks of training, managers are hired on short-term contracts and may be offered full-time employment at the end of the placement. Previous courses have had success rates of over 80 per cent.

Linda Stoker, managing director of Dow-Stoker, a small business which provides training courses including ones for redundant executives, says: "I've hired a few people who had worked in big companies and some have failed. They have not been able to roll up their sleeves. We had one person who when we moved to new offices over

a weekend was conspicuous by her absence. She was also very status conscious and suggested that all the parking spaces in the new offices went to managers. We don't do that sort of thing."

Managers making the move should be prepared to leave behind not only the perks but also many of the qualities that made them successful in a big company, according to the Industrial Society. "An individual may have had up to a 10-year time-frame for planning and been good at it," observes Johnson. "In a small business decisions may have to be taken in 10 minutes."

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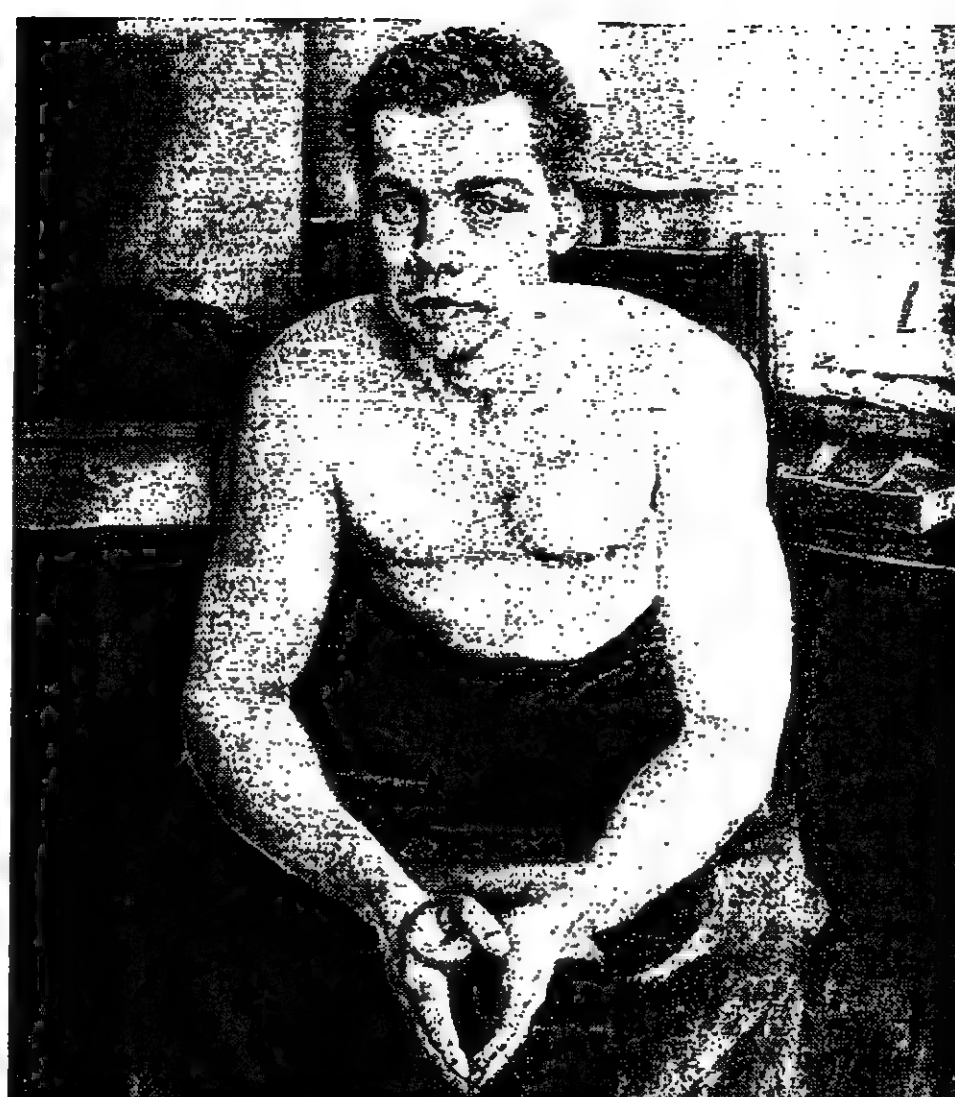








'Blotter' by Peter Dalg, 1993, winner of this year's John Moores



Picture which deserved a prize: 'Portrait of Joshua', 1993, by Sarah Raphael

## A prize commitment to painting

Despite all the brouhaha about the Turner Prize, the televised dinner, speeches and fuss with envelopes, it is still the John Moores that artists want to win. Perhaps this is because the John Moores was the first of the open submission prize exhibitions, and the peculiar affection in which this competition is held reflects the late Sir John's personal enthusiasm and support for many years, since it started in 1967.

Of course there will be grumbles and speculations about the collective interests and judgments of the jury, and disappointed incredulity afterwards, as much as failure to get in as at the disposition of the awards. But the Moores is the talking point among artists, who show a degree of interest and involvement much greater than they do for the Turner Prize. Sir John Moores' recent death

at 97 has naturally cast this, the 18th, as his memorial Liverpool Exhibition, as well as some doubt as to its future. These doubts were put to rest when the Moores family said it would continue to support the exhibition in principle. Although the form might change, this is good news. The Moores has often modified itself in any case, and its current limitation to paintings and but the lowest of relics is a long-standing grief and irritation to sculptors. I am firmly on the side of the painters and see little need for change. The commitment to painting in particular, in a time when it seems to be increasingly discredited by the orthodoxologists and promoters of the institutional avant-garde, is its greatest strength.

In an intriguing essay in the catalogue, Andrew Brighton, one of this year's jurors, offers upon the ever-shifting relationship that the Moores has enjoyed with its critics. It began 36 years ago as an opportunity for the more advanced artists who were at that time excluded by the Royal Academy, to set themselves against their peers. Ironically, it has now become the one serious opportunity to remind the avant-garde itself of one of the principal disciplines in the great tradition of

proportion more figurative paintings than I can remember, and inevitably particular inclusions, indeed prize-winners, that I find inexplicable. But overall the emphasis seems to be placed, as it should be, on good painting of whatever kind.

Little in this exhibition is objective, that is derived from

**William Packer reviews the 18th John Moores exhibition at the Walker Art Gallery, Liverpool**

art, putting point on canvas.

There is nothing of controversy to this year's Moores, nothing of the conceptual bias or feminist agenda of last time or the time before. And it is precisely its disengagement, its lack of controversy that makes it useful. It is a straightforward survey of current British painting, the 84 works that the jury considered the best of the 2013 submitted. There are in

direct observation of the real and visible world. Sarah Raphael's small portrait of a friend, Joshua, is the outstanding example of that sort and certainly deserved a prize. There is no landscape or interior that is not to some extent photographed in its reference (Paul Winstanley, Geoff Stalker, Martin Greenfield), or schematic (Adrian Berg, Adrian Henri). Perhaps this is nothing more

than fair reflection of the submission, but, by my own experience as juror on the Moores, I doubt it.

The first prize of £30,000 has gone unexceptionably to Peter Dalg for his large and characteristically elegant and mannered amplification of a photograph of a man standing on ice - or is it perhaps in a puddle - in a winter forest landscape. But in general the best of the painting is, perversely, abstract, notably Trevor Sturges' minimal roundel, a low relief panel in white and gold that is as physical as it is seductive, by Stephen Buckley, a former prize-winner, and Simon Gallery's large, allusive, exquisitely reticent canvas worked in horizontal bands of pink and grey, red and violet. Best of all is Michael Ginsborg's sharply curvilinear image, as taut as a carriage spring, pale red on pale pink and orange. I would have given it the prize.

Am I damning this Moores

with faint praise? Not at all. "Has the Moores become an exhibition of, perhaps, relatively sophisticated, consensual (sic) painting?" asks Mr Brighton. "Or can it still within its limitations... attract... work which is part of the tradition of modern art?" Which is the case and which desirable seems to me the general issue... now for critics to address.

This seems to miss the point. I only wish that the Moores would embrace a wider scope to take in that more objective strain, worked direct from model or landscape that sustained Cézanne, Matisse, Giacometti, Balhaus, Freud. Even so, by its very sophistication, and the professional consensus it celebrates, the Moores still and most effectively displays work that is indeed truly "part of the tradition of modern art."

John Moores Liverpool Exhibition 18: Walker Art Gallery, Liverpool, until January 23.

contrast to this natural rhythm, at the other end of the stage Brunninghaus creates a fine synth mix embedded with twinkling notes. Centre stage and alongside Garbarek, Weber at the electronic bass (a hybrid of upright fiddle and bass guitar with a delay pedal) weaves plangent lines with the bow in sympathy with Garbarek's keening soprano.

But the second set brought a new, airborne tenor sound from the leader. Enlivened by Mazur's brilliant, dervish-like performance behind the shakers and more angular, discordant phrasing from Weber, Garbarek took off, quoting Gilberto and leading the group out of the fog and into an almost jolly Norwegian funk - if such a thing is possible.

Next week, Lloyds Bank will announce a £500,000-a-year sponsorship in the film area. The Bank, which in 1994 will spend over £2m in sponsorship,

believes that film is an under-exploited art form. It already backs the Lloyds Challenge for young scriptwriters and directors.

If fashion counts as art then Lloyds rivals BT as the leading British sponsor of the arts. Along with its involvement in film and fashion it also supports the Young Musician of the Year contest, which will fill BBC screens again next spring. Apart from a bias towards youth all its links have one thing in common: they attract television coverage. Next year, Lloyds is expecting more than 15 hours of prime-time television to be devoted to events it supports.

Substantial one-off sponsorships of costly new opera or ballet productions are rare these days, but PowerGen came up with £110,000 for *Sylvia*. David Bintley's new work for the Birmingham Royal Ballet, which opened last week. But even here the sponsor is being hard-headed. If the ballet is a success, and stays in the RSC repertoire, then PowerGen will raise its support to £150,000. Fortunately for RRB, the initial reaction was favourable.

Two unusual new sponsors are Jigsaw, the fashion retailers, and Elisabeth the Chef. Jigsaw is sponsoring a tour of a new dance work by the Harlema Dance Company choreographed by Bunty Matthias. The Company will visit regional towns where Jigsaw has shops, and the dancers' costumes were designed by Maria Cornejo, a Jigsaw consultant.

Elisabeth the Chef is a Leamington Spa based supplier of bakery products to supermarkets. One of its largest clients is Sainsbury, and inspired by the sponsorship programme of its important customer, it has funded a £5,000 postgraduate art student award. The winner of the New Art Award will be announced on Wednesday.

Beck's, the brewers, is one of a growing number of sponsors that want to be associated with the avant-garde. (It is a myth that sponsors only support the tried and tested: many companies think they can quickly acquire a go-ahead image if they back the experimental.) Beck's latest commitment, a mummified concrete house constructed by conceptualist Rachel Whiteread in East London, was unveiled last Monday. It will stand for just a few weeks. Working with Artangel, an organisation devoted to placing art in unorthodox settings, Beck's will contribute £50,000 over three years to create an annual landscape creation, built to disappear.

Sponsorship may be faltering in the UK but there is still plenty of potential for international connections. The Orchestra of the Age of Enlightenment embarks in February on its first European tour, thanks to £50,000 from Goldman Sachs, which, a first-time sponsor, should attract a substantial uplift from the BSIS. The American-owned bank wants to show off its European credentials.

Conversely, Banco Santander, along with the Royal Bank of Scotland, is generously backing the Spanish Arts Festival in London next spring. Between them they are putting almost £300,000 into the Festival, helped by a £25,000 BSIS grant for the Banco.

### Sponsorship/Antony Thorncroft

## Down but not out

After years of steady growth, expenditure on arts sponsorship came to a halt in 1992-93. Against the odds it had risen by an impressive 14 per cent in 1991-92, to £64.4m, encouraging the belief that somehow sponsorship was recession proof. But when the Association for Business Sponsorship of the Arts announces the most recent figures later this week they will show a fall, not a mammoth fall, but enough to force the sponsorship industry to reassess its approach.

The smaller, regional, first-time sponsors are still joining up with enthusiasm, but the large traditional sponsors are harder to find.

On cue, two of the great British arts sponsorships, the Royal Insurance support for the Royal Shakespeare Company, and the Digital Dance Awards come to an end next month.

Royal Insurance pumped £3.5m into the RSC over six years and both sides gained tremendously from the link. The RSC is now seeking a similar big backer. In the meantime it is having some success finding sponsors for individual new productions. Unilever subsidiaries, Lever Bros and Van den Bergh's, will put their brand names behind the new *Macbeth* opening in December, and there is a first-time sponsor, JBA International, a Stratford-based computer company, for the new *Moby Dick*. This has attracted a top-up grant from the Business Sponsorship Incentive Scheme administered by ABSA.

The RSC still has one long-term admirer in English Estates, which has given £200,000 towards the small venue tour of *Julius Caesar*, currently on the road. But next year English Estates disappears into the Urban Regeneration Agency and no one knows whether it will continue its imaginative approach of bringing the arts to culturally starved areas of the country.

The RSC has one big attraction for sponsors. It has an enthusiastic chairman in the Prince of Wales. On Thursday night its main sponsors and some prospective friends were invited to Buckingham Palace for a Shakespearean soiree.

Although dropping the Digital Dance Awards, Digital Equipment Corporation, the computer company, is sticking with sponsorship, and with dance. In six years it invested £700,000 in 70 new dance works. It now feels that dance, and dancers, are better able to stand on their own feet. However, it is keeping the £30,000 Premier Award for an individual, the biggest cash sum in the field, and is spending a further £180,000 in 1994 on training and the development of dance projects for larger venues. So the investment in dance has actually increased.

At the international level, Digital is reorganising. Its long-term support for the European Community Youth Orchestra has come to an end, but a future global sponsorship will not be decided upon for a year or so, by which time Digital's financial position should have improved.

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### Concert

## Andsnes's Grieg

Andsnes's selection proved very satisfying, like a series of delicate water-colours. He proved sensitive to their varying moods and vivid characterisation, capturing his country's folklore in the *Hardanger Sjølæder* of the *Albumblatt*, and the humour in the "March of the Trolls". Other highlights were a glistering "Butterfly", the impressionistic "Bell-ringing", and the touching simplicity of "At Home". Where other pianists might have turned heavy-handed, he maintained an easy dexterity, investing quieter dynamics with colours

of extraordinary subtlety.

To leave the audience in no doubt of his virtuoso credentials, Andsnes framed his Grieg with Liszt and Chopin. He opened with a bravura account of the former's second Ballade, cogently argued, but Andsnes showed his serious intent best of all in an elegant performance of the Chopin Third Sonata - the Largo radiant, the outer movements majestic yet measured with an inward calm which spoke of the interpreter's astonishing maturity.

Although the Grieg remained longest in the memory, this was a well-balanced recital. An all-Grieg programme would have been too obvious, and this versatile young Norwegian is right to avoid being typecast so early in his career.

John Allison

### Jazz

## Garbarek at his best

Garbarek, the ascetic Garbarek is at his atmospheric best. Sparse arrangements of hypnotising melodies are worked up into landscapes of uniquely new, airborne tenor sound from the leader. Enlivened by Mazur's brilliant, dervish-like performance behind the shakers and more angular, discordant phrasing from Weber, Garbarek took off, quoting Gilberto and leading the group out of the fog and into an almost jolly Norwegian funk - if such a thing is possible.

Next week, Lloyds Bank will announce a £500,000-a-year sponsorship in the film area. The Bank, which in 1994 will spend over £2m in sponsorship,

believes that film is an under-exploited art form. It already backs the Lloyds Challenge for young scriptwriters and directors.

If fashion counts as art then Lloyds rivals BT as the leading British sponsor of the arts. Along with its involvement in film and fashion it also supports the Young Musician of the Year contest, which will fill BBC screens again next spring. Apart from a bias towards youth all its links have one thing in common: they attract television coverage. Next year, Lloyds is expecting more than 15 hours of prime-time television to be devoted to events it supports.

Substantial one-off sponsorships of costly new opera or ballet productions are rare these days, but PowerGen came up with £110,000 for *Sylvia*. David Bintley's new work for the Birmingham Royal Ballet, which opened last week. But even here the sponsor is being hard-headed. If the ballet is a success, and stays in the RSC repertoire, then PowerGen will raise its support to £150,000. Fortunately for RRB, the initial reaction was favourable.

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## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

Concertgebouw Tonight: Rafael Orozco piano recital. Tomorrow, Sun, next Tues: Gerard Oskamp conducts Netherlands Philharmonic Orchestra in works by Musorgsky, Glazunov and Sibelius, with violin soloist Emmy Verhey, Thurs and Fri: Claus Peter Flor conducts Royal Concertgebouw Orchestra in Janacek, Poulenc and Shostakovich. Sat afternoon: Edo de Waart conducts concert performance of Lohengrin, with cast headed by Thomas Surnegard, Sergei Leiferkus, Deborah Voigt and Gabriele Schnaut. Sun morning: Guarnieri Trio plays Ravel and Dvorak. Nov 10, 11, 14: Wolfgang Sawallisch conducts Royal Concertgebouw (24-hour information service 020-675 4411 ticket reservations 020-671 8345).

cast led by Cynthia Haymon and Brigitte Balleys (repeated Nov 10, 14, 16, 19, 22, 25, 28, 30), Nov 11, 12, 13: choreographies by Anne Teresa de Keersmaeker (020-625 1455).

### BRUSSELS

Palais des Beaux Arts Tomorrow: Yayoi Tada plays violin sonatas by Beethoven, Ysaye and others. Thurs: Armin Jordan conducts Orchestra de la Suisse Romande in works by Gaudibert, Schumann, Ravel and Roussel, with piano soloist Martha Argerich. Fri: Jean-Claude Casadesu conducts Orchestra Nationale de Lille and Pro Musica Chorus of London in Haydn's Creation. Sun afternoon: Pierre Bartholomée conducts Liege Philharmonic Orchestra in Mozart, Bartok, Leloux and Strauss, with violin soloist Silvia Marcovici. Sun evening: Marc Soustrot conducts Orchestra of the Monnaie in Bizet, Beethoven and Strauss (02-507 8200).

### CHICAGO

Chicago Symphony: Georg Solti conducts four programmes this month. Tonight: Haydn's The Creation. Fri and Sat: Dvorak's Cello Concerto (Steven Isserlis) and Stravinsky's Petrushka. Nov 11, 12, 13: Hungarian programme. Nov 18, 23: Stravinsky,

Mendelssohn and Beethoven. Midori gives a violin recital on Sun (012-435 6886).

### CHICAGO LYRIC OPERA

This month's repertoire consists of Tosca with Maria Ewing (tonight, next Mon and Fri), Carlisle Floyd's Susannah starring Renee Fleming and Samuel Ramey (final performance on Fri) and Così fan tutte, conducted by Andrew Davis and staged by Peter Hall, with Carol Vanessa, Keith Lewis, Delores Ziegler and Jeffrey Black (from Saturday). A new production of Die Walküre opens on November 23 (012-332 2244).

### GENEVA

Comédie A new French-language production of John Willington Synge's 1907 tragic-comedy The Playboy of the Western World opens tonight, directed by Claude Stratz. Daily except Sun and Mon till Nov 20 (022-320 5001). Grand Théâtre A new production of La Cenerentola, conducted by Jesus Lopez Cobos and staged by Jerome Savary, opens on Sat, with a cast headed by Jennifer Lamore and Rockwell Blake (repeated Nov 9, 11, 14, 16, 19 and 21). Ann Murray gives a recital on Nov 10 (022-311 2311). Victoria Hall Thurs: Natalia Gutman, accompanied by Eliso Virsaladze, plays Beethoven cello sonatas. Sun: Theodor Guschlbauer conducts Strasbourg Philharmonic Orchestra in works by Berlioz, Chausson, Saint-Saens and Roussel, violin soloist Miriam Fried. Nov 8, 9, 10, 11: Gerhard Oppitz gives a Brahms

piano cycle (022-310 6811).

### THE HAGUE

AT&T Dutchtheater Tomorrow, Thurs: Dutch National Ballet in choreographies by Forsythe, Balanchine and Pastor. Fri: Nederlands Dans Theater in choreographies by Naharin and Kylian. Sat: Mixmix dance group (070-360 4930). Dr Anton Philipszaal Fri: Five Blind Boys of Alabama. Sat: London Chamber Orchestra plays Britten, Elgar, Gorecki and Vivaldi. Sun afternoon: Gerard Schwarz conducts Hague Philharmonic Orchestra in Mozart and Brahms. Next Mon: Rafael Orozco is piano soloist with Zagreb Philharmonic Orchestra (070-360 9810).

### ROTTERDAM

De Doelen Tonight, tomorrow, Thurs: Gerard Schwarz conducts Hague Philharmonic Orchestra in Mozart and Roussel, with piano soloist Ivan Moravec. (010-217 1717).

### VIENNA

Staatsoper Tonight: A Midsummer Night's Dream, ballet with music by Mendelssohn and Ligeti. Tomorrow and Sun: Il trovatore with Cheryl Studer, Agnes Balza and Sergei Leiferkus. Thurs: Lucia di Lammermoor. Fri: Madame Butterfly. Sat: Capriccio. Next Mon: La bohème (51444 2855). Musikverein Tonight: Jessye Norman song recital. Fri: Mark

Brown conducts Pro Cantione Antiqua in a programme entitled The English in Love. Sat afternoon: Seiji Ozawa conducts Vienna Philharmonic Orchestra in works by Berg, Mendelssohn and Brahms. Sun afternoon, Mon evening: Stephen Hough plays Hummel's Piano Concerto with Tonkünstler Orchestra (505 8190). Konzerthaus Wien Modern: Vienna's contemporary music festival runs throughout November, with special focus on Penderic, Takemitsu, B.A. Zimmermann and Erich Urbanner. Other composers represented this week are Oliver Knussen, Magnus Lindberg and Mark Antony Turnage, whose music is included in a Scheroun Ensemble concert conducted by Claudio Abbado on Sat (712 1211).

### WASHINGTON

MUSIC ● Mariss Jansons conducts St Petersburg Philharmonic Orchestra tomorrow in works by Tchaikovsky and Rakhmaninov, with violin soloist Shlomo Mintz. Zdenek Macal conducts National Symphony Orchestra in works by Rakhmaninov and Brahms on Thurs, Fri, Sat and next Tues, with piano soloist Zaimon Barto (202-467 4600). ● Neville Martinson conducts Baltimore Symphony Orchestra in symphonies by Mozart and Tchaikovsky at Baltimore's Joseph Meyerhoff Symphony Hall on Fri, Sat and Sun afternoon (410-783 8000). ● Washington Opera's 1993-94 season opens on November 13 with Anna Bolena and starring Nelly

Miricliu (202-416 7800).

### THEATRE

● Lips Together, Teeth Apart: Terrence McNally's play about two married couples who spend the Fourth of July together on Fire Island. Opens tomorrow (Studio Theater 202-332 3300). ● For Reasons that Remain Unclear: Mark Crowley's play about a Hollywood writer who meets by chance in Rome. Opens tomorrow (Olney Theater 301-824 3400). ● Carrier: Conrad Bishop and Elizabeth Fuller explore the complex emotional legacy of the Vietnam War. Opens tomorrow (George Mason University 703-993 8888). ● Dancing at Lughnasa: Brian Friel's award-winning play about five Irish Catholic sisters in Donegal in 1936. Opens on Sat (Arena Stage, Krueger Theater 202-458 4377).

### ZURICH

Opernhaus Tonight, Fri, Sun: Nello Santì conducts Jonathan Miller's new production of Falstaff, with cast led by Juan Pons. Tomorrow: Così fan tutte. Thurs: Rigoletto. Sat: Die Zauberflöte. Next Mon: Ann Murray song recital. This month's repertoire also includes Il barbiere di Siviglia, Macbeth, Nutcracker and a new production of Raymond's (01-262 0909). Tonhalle Tonight: Edmond de Stoutz conducts Zurich Chamber Orchestra in Haydn, Dragonetti, Durante and Telemann, with double bass soloist Gary Karr. Thurs: Wolfgang Holzmair song recital (01-261 1600).

### ARTS GUIDE

Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

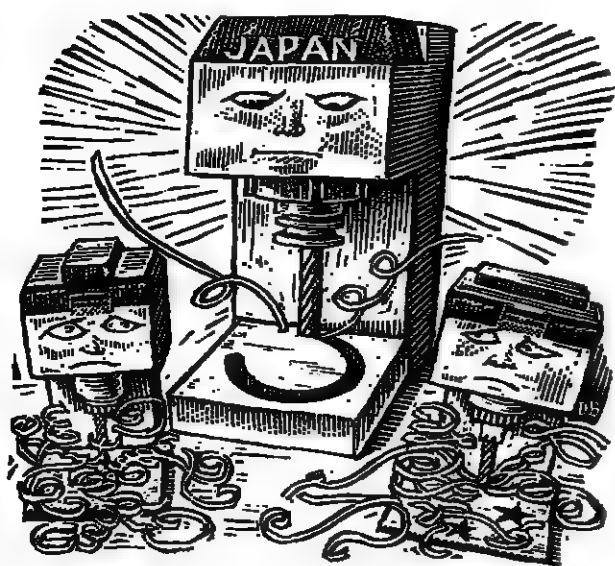
### European Cable and Satellite Business TV

(All times are Central European Time)  
MONDAY TO THURSDAY  
Super Channel: European Business Today 0730; 2230  
Monday Super Channel: West of Moscow 1230.  
Super Channel: Financial Times Reports 0630  
Wednesday Super Channel: Financial Times Reports 2130  
Thursday Sky News: Financial Times Reports 2030; 0130  
Friday Super Channel: European Business Today 0730; 2230  
Sky News: Financial Times Reports 0530  
Saturday Super Channel: Financial Times Reports 0930  
Sky News: West of Moscow 1130; 2230  
Sunday Super Channel: West of Moscow 1830  
Super Channel: Financial Times Reports 1900  
Sky News: West of Moscow 0230; 0530  
Sky News: Financial Times Reports 1330; 2030



## Europe's metal fatigue

Andrew Baxter on the threat from Japan's machine tool makers



value of machine tools sold in the European market has fallen by 20 per cent to \$2.6bn.

In spite of this bleak analysis, the share of total world production of machine tools by Cecimo countries has risen from 40 per cent in 1990 to 47 per cent last year. Europe has maintained a trade surplus in machine tools, albeit down from \$2.45bn in 1990 to \$1.92bn last year, as sales to growing markets in China and south-east Asia offset the collapse of traditional markets such as the former Soviet Union.

But Europe is still seeking a long-term solution through a two-pronged strategy to resolve the problems of an industry which has lost 32,000 jobs - 17 per cent of its workforce - over the past two years. First, Cecimo is asking the European Commission to adopt industrial and trade measures that would help the industry cope with its competitors.

Among its requests are: action to reduce the financial and employment costs for European producers, relative to those of the US and Japan; financial incentives for customers to buy machine tools whenever the market is in a severe downturn; a programme

to help small and medium-sized companies take part in EC research and development programmes; a positive conclusion of the Gatt trade negotiations; and a co-ordinated EC policy to promote exports.

The aim, according to Mr Yves de Boisfleury, Cecimo's president, is to correct what he sees as the "flagrant imbalances" between the costs of doing business in Europe, compared with those of Japan and the US. Cecimo claims that "social costs" in Germany - salaries, benefits and other employee-related expenses - are 27 per cent higher than in Japan and 37 per cent more than in the US.

Such pleas might be dismissed as another unrealistic wish list from industrialists struggling in a recession, were it not for the fact that the industry has accepted the need for restructuring through mergers, takeovers and co-operation deals. This is the second plank in its survival strategy.

The recession can be credited for the new note of realism. "I have been through four recessions, but none has been as bad as this," says Mr Walter Trick, Traub's export manager.

For German machine tool makers, the crucial competitive battle is with Japan. The two countries account for 47 per cent of total global machine tool production, and Germany has far more producers competing head on with the Japanese than is the case in the rest of Europe.

Mr Hans-Joachim Holstein, sales and marketing director at Traub, speaks of a "vicious circle" in which the company is entwined in the system of high German labour costs and at the same time is the victim of cost pressures among its domestic customers.

"If we have cost cuts, then we have a chance to continue manufacturing here in Germany," he says. Traub already manufactures in France, Italy and Brazil, and plans to reduce manufacturing in western Germany from 80 per cent of total production to 50 per cent over the next 12 months.

It needs to reduce the cost of its high-volume standard machines by up to a quarter over the next year or so, says Mr Holstein, or else make them outside Germany. Such an admission would have been unusual three years ago but is now common among leading European producers.

Cecimo says the problem of high labour costs is not confined to Germany. Only if the European industry can reform its cost structure will it be able to respond to customers who are increasingly looking for value for money rather than technical wizardry.

According to Mr Hans-Jürgen Marckzinski, general commissioner at the Hannover show and chief executive of Dortmund-based Thyssen Maschinenbau, customers want equipment that is "as good as it needs to be", rather than "as good as possible".

Giving customers what they want cannot be a strategy which relies for help on the European Commission. Producers are increasingly aware that they should take the future into their own hands rather than wait for concrete proposals. The response from the Commission to Cecimo's plea has so far been cautious, although it clearly recognises that Europe's machine tools could unlock increased manufacturing productivity.

Mr Daniele Verdiani, a senior official at the Commission's industry directorate, says: "The Community can always make business conditions more favourable", but adds pointedly: "The micro-economy cannot be regulated by a magic wand."

Joe Rogaly

## Why judges are jumping



As Britain's elected politicians become less judicious, the country's judges become more political. It is not surprising that the judiciary is expanding its influence. The government thinks only of its day-to-day survival; the opposition is immobilised by fear of upsetting anyone. Our politicians are a sorry lot. The courts are presided over by the brightest minds in public life. Like it or not, the latter are doing their best to compensate for the deficiencies of the former.

We have seen much evidence of this over the past few years. The modern half of the story begins in 1967, when the then new Lord Chancellor, Lord MacKay, intimated that judges could decide for themselves whether they wished to address the general public by talking to the media. He thus abolished the convention established in a letter written to the BBC by one of his predecessors, Lord Kilmuir, in 1955. The essence of the "Kilmuir rules" was that, in order to keep the judiciary "insulated from the controversies of the day", their lordships should keep their honourable traps shut when off the bench.

Two years later the judges rewarded Lord MacKay's liberalism by publishing their objections to his proposals for reform of the legal profession. Senior judges handled the back-up campaign on TV. The result is instructive. The Mackay reforms have been, shall we say, modified on legal advice. Call it a positive result of open government.

It is not possible to be so kind about the government's strategies for the control of crime, the dispensation of punishment, and the administration of justice. The 1981 Criminal Justice Act was in need of urgent repair the day after it became law. Prisoners rioted at Strangeways; Lord Woolf was asked to find out why. His subsequent report awaits implementation. Spectacular miscarriages of justice were revealed. Lord Runciman was asked to make recommendations. His report, delivered in July, has been used as a brain-box from which to pick measures that suit the home secretary's mood.

Enter Lord Taylor. At the end of April 1992, a few weeks after one of the most ill-starred administrations since 1979 had been returned to office, the erstwhile Sir Peter Taylor became Lord Chief Justice. Unlike his predecessor, Lord Lane, the new top judge is willing, anxious even, to speak his mind. Just 18 months on, he has become a serious player in the political game.

He appears at social events around town, cheerful and chatty. His demeanour is that of a public office holder campaigning to reshape parts of the law.

The new Lord Chief Justice led the assault on Lord MacKay for the latter's parsimony with legal aid. Result: slash. He demanded more judges and got them. He was critical of the 1991 Criminal Justice Act; his points of substance will doubtless be incorporated in a bill to be presented next month. The Judges' Party is determined that Britain shall incorporate the European convention on human rights into domestic law; if not by Parliament, then by judicial stealth. Lord Woolf, a fellow crusader for better governance, recently slipped, in an otherwise brilliant

address on the inadequacy of merely building more jails which produce more criminals, he spoke of prosecuting property owners who failed to burglar-proof their houses or cars. Enemies of the Judges' Party trained their fire upon him.

Outspoken judges are not unique in British history. A biography of Lord Denning by Iris Freeman, just published, will convince you of that. Still alive at 94, the former Master of the Rolls was in his time the most popular jurist anyone could recall. He stayed on the bench too long and made some silly mistakes towards the end of his career, but prior to that he was outstanding, the most brilliant legal mind of the century.

A grammar school boy like Lord Taylor, Lord Denning used the law creatively in order to change it. His views were made plain in many books and speeches, but he owed his appointment as Master of the Rolls to Lord Kilmuir, he of the Trappist rules for judges. "In general," says Freeman, "Tom agreed with the rules for others, if not for himself..." He was most effective on the bench, where, ever the opportunist, he grabbed at cases that he could manipulate to make a particular point. His first-class mind and encyclopaedic memory enabled him to devise fresh interpretations of both statute and, more particularly, common law.

The present generation of reforming judges may have profited from the Denning example, which, of course, they all know by heart. Like him, many of them have learnt to speak plain English, without pomposity. Unlike him, they

are not absolutely in tune with common opinion - although, to be fair, we live in a more heterogeneous society. Tom Denning, born to a Hampshire draper in 1899 and a believing Christian, could be ever the English pragmatist. His successors must grapple with Europe, the break-up of the family, the decline of the inner city, and the social chaos we all know and love.

Lord Denning led a frontal assault on the iron rule of precedent, which obliged judges to deliver patently absurd verdicts. The Law Lords freed themselves, but not lower courts, from the rule. He insisted on reading past the text to establish what legislators intended. Today judges may at least consult Hansard. He extended the law of negligence, and defended the ordinary subject's right to compensation from ministers. He was a corkscrew: finding against a Labour trade union law here and a Conservative one there. Catholics, Jews, the Irish, blacks and others may feel slighted by some of the references in this otherwise sympathetic book. My reading of it is that, if Lord Denning harboured the prejudices of his fellow Englishmen, he did not allow them to influence his judgments.

Iris Freeman gives us a great many facts. She lists all the Denning's travels and refers to more than 150 cases. She does not, however, spend much space putting his legal achievements in context. Perhaps it is too soon. We cannot yet know which judges will have turned out to be the most effective: the cunning maverick Denning, or the more overtly political Taylor & Co. Meanwhile, if you're worried about judge-made law, elect better politicians.

"Lord Denning, by Iris Freeman, Hutchinson, 449 pages, £25

**The judges have some of the brightest minds in public life. They are trying to compensate for the politicians' deficiencies**

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## Short-term rate cut no long-term answer

From Mr Laurens van den Muyzenberg.

Sir, Your editorial "Monetarism in retreat" (October 30/31) states: "France is defiantly refusing to enter the pro-growth era. It has refused the significant cut in interest rates that France's low inflation rate allows."

This is a statement typical of a continuous stream of articles in the British press with very little resonance on the Continent. Why? The franc one-year interest rate is 6 to 5% per cent as compared with sterling 5% to 5 1/2% per cent. A difference of 1/4% percentage point. This result has been achieved by keeping the franc owners almost 20 per cent wealthier than the sterling owners.

The other side of the ocean, David Mullins, vice-chairman

of the US Federal Reserve, said last week: "I think you have to be very careful with rapid short-term rate cuts. There is a great risk that long rates react in the opposite way."

The French, English and German unemployment problems are not caused by high interest rates, but by the combination of business globalisation and lack of European competitiveness and flexibility. The jobs that have disappeared will not come back. They have migrated to other countries.

The container and the fax, which make it possible to carry out any task where best value for money is delivered, will not disappear. Investments will only be made, and so jobs created, when there is much greater flexibility in increasing and decreasing company size,

working hours, compensation, geographical mobility, acceptance of new technologies and work practices, etc.

This flexibility, combined with stable currencies and entrepreneurial enthusiasm, can solve the unemployment problems, but not another short-term interest rate cut. In France or in the UK. That is a commonly held view on the other side of the Channel.

Laurens van den Muyzenberg, management consultant, M&C, 1 Queens Terrace, Windsor SL4 2AR

From Mr Jeremy Hale.

Sir, Your leader "Monetarism in retreat" was confused. If monetarism really lives on in Paris, as you claim, French interest rates should now be

much lower. The authorities' broad money aggregate, M3, continues to grow very slowly (0.7 per cent year on year in August) and thus to undershoot targets (4-5 per cent). Predictably, nominal gross domestic product growth is also now close to zero. Why are short-term interest rates still above 6 per cent, or 3.5-4 per cent in real terms? Because the French authorities believe not in monetarism but, even now, in an exchange rate target.

Further evidence of the dangers of targeting exchange rates, not of monetarism, n'est-ce pas?

Jeremy Hale, senior international economist, Goldman Sachs International, Peterborough Court, 133 Fleet Street, London EC4A 3BB

## High earner an asset

From Mr Michael Spencer.

Sir, Eyebrows may indeed be raised in Downing Street and elsewhere at the remuneration received by Mr Alamouti, head of arbitrage trading at Tokai Bank in London ("Arbitrage dealer defies recession to earn £9m", October 27). However, before the cynics get into a lather, it is worth considering what benefits, if any, Mr Alamouti contributes to the British economy.

First, there is the obvious point that he has highly transferable skills and could, with a phone and Reuters screen, practise his chosen trade in New York, Frankfurt, Paris or Tokyo pretty much as easily as he can in London. The fact that he works here not only helps the City in maintaining its pre-eminent position in the global financial markets but also benefits the Exchequer not immaterially. His income tax bill and Tokai's increased corporation tax liability no doubt add up to a tidy sum.

Second, arbitrage is itself an economically important activity. Without it, price imperfections and illiquidity would disadvantage market users and make the process of risk transfer less efficient. As the layers of mystery behind financial derivatives are stripped away, Mr Alamouti will find increased knowledge and competition making arbitrage less profitable and the markets more efficient. But by then, no doubt, he will either have retired or moved on. In the meantime we need more, not fewer, Alamoutis.

M A Spencer, Intercapital Brokers, 16 Finsbury Circus, London EC2M 7JN

## Unit trust buying practice at heart of system

From Sheila A Nicoll.

Sir, Mr Landman (Letters, October 26) has misunderstood the roles both of unit trust managers and of stockbrokers and marketmakers in running principal positions.

Far from being punished, as he suggests, such behaviour is at the heart of the trading system at the London Stock Exchange and many other financial markets, where liquidity is provided by firms which are willing to take a risk using their professional judgment of the market and buying and selling for their own account.

When unit trust managers take principal positions (which

they have to do, for example, if they are to deal on a historic basis, a service appreciated by many private investors), the interests of investors are fully safeguarded.

The price which an investor pays for units or receives for selling them is carefully regulated through detailed pricing rules drawn up and imposed by the regulatory authorities. The price will be within the same parameters regardless of whether units are created or cancelled with the trustee or the manager sells on units which have previously been sold back to him.

The independent corporate trustee who must be author-

ised under the Financial Services Act 1986 holds the unit-holders' assets and has a responsibility to ensure that investors' interests are kept paramount.

If there is a fall in the market, the manager takes a loss and if he sells, the price he receives is again calculated according to the pricing regulations: he will receive the cancellation price applicable at that time. Investors are unaffected.

Sheila A Nicoll, director, legal and financial affairs, Association of Unit Traders and Investment Funds, 65 Kingsway, London WC2B 6TD

## Picture of Belarus prospects not so bleak

From Ms Roberta Feldman.

Sir, Matthew Kaminski's article, "Belarus finds breaking up is hard to do" (October 12), may paint too bleak a picture of reform there. In fact, many economic officials at both the local and national levels are anxious to implement reforms and ready to listen to advice.

For example, the International Finance Corporation's

small-scale privatisation assistance project in the city of Brest, begun in June, resulted in Belarus's first open auction on September 29, ahead of schedule. Cities and regions all over Belarus are now requesting privatisation assistance from IFC, and the government of Belarus has requested advice on rationalising privatisation legislation, including the voucher law.

Reformers in Minsk and the provinces often want and welcome assistance. Unfortunately, western experts have so far largely overlooked Belarus in favour of its neighbours.

Roberta Feldman, task manager, small-scale privatisation in Belarus, Russia and Ukraine, International Finance Corporation, Washington DC

## Strong argument for relaxed management style

From Dr George Fieldman.

Sir, The psychological research published in the FT (Recruitment, October 27) on problem-solving styles indicated that a goal-orientated or task approach is less productive than an interest-orientated or paratelic approach. This finding is fascinating indeed and, if confirmed by other studies, has important implications for management training.

It is a powerful argument for relaxed management styles which encourage staff to follow their own insights and intuitions, at least for tasks which involve problem-solving. Such an approach is also likely to reduce psychological strain in staff which, in turn, should promote their physical and psychological well-being.

So much then for the dogged Thatcherite influence upon management. In this view

external pressure was seen as the principal means of promoting British economic productivity: what an appalling waste that may have turned out to be. Of course, the notion that people can be brow-beaten into world-class performance always lacked credibility.

George Fieldman, St George's Hospital Medical School, Department of Psychology, Cranmer Terrace, London SW17

# It seems we merged to be the best of both banks.

Merger announced November 2, 1992  
Situation as of November 2, 1993:

### Euromoney:

No. 1 in Dutch Equity Research  
No. 1 in Equity Execution  
No. 1 in Economic Research

Global Custodian International:  
No. 1 Dutch Custodian Bank

### Institutional Investor:

No. 14 in European Mergers & Acquisitions

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## FINANCIAL TIMES

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Tuesday November 2 1993

## Tip of Japan's debt iceberg

IT WOULD be foolish not to be generous in praise of the Japanese authorities' macroeconomic management over the past three years. The Bank of Japan has succeeded, using both interest rate cuts and asset-twisting, in maintaining financial order following the 1990 Tokyo stock and property market collapse. The Ministry of Finance, after some prompting, has used both administrative measures and fiscal injections to put a floor under share prices and prevent a slump. Faced with similar problems, the US, UK and Scandinavian countries have all suffered recessions. Japan, by contrast, has just about kept growth alive.

It is against this background that the significance of the bankruptcy of Muramoto Construction should be judged. The collapse of the Japanese property contractor, leaving ¥760bn in unpaid debts, may be the largest bankruptcy in Japan since the second world war. What is surprising is that there have been so few Muramotos, given the scale of Japan's property market collapse.

Yet Muramoto Construction represents the tip of a large iceberg. Last March, official Japanese government figures put the total of "non-performing" loans at the top 21 city banks at ¥12,700bn, a little over 3 per cent of outstanding loans. But government sources also acknowledge that, when the debts of non-bank subsidiaries are included, the true figure is at least three times the official level, raising the ratio of bad debts to loans to Scandinavian levels. Even the official stock of non-performing

loans represents four times last year's operating profits of the 21 city banks. Meanwhile, the Co-operative Credit Purchasing Company (CCPC), the agency set up last year without public money in order to remove non-performing loans from bank balance sheets, is moving at a slow pace. Between February and the end of September, it purchased loans with a face value of a mere ¥1,050bn.

Of course, as the Bank of Japan points out, the evidence that Japan is currently facing a credit crunch is far from conclusive. Yes, bank lending is falling and the broad money supply is barely growing. But, with Japanese companies themselves restructuring after the over-investment of the late 1980s, the demand for credit is hardly buoyant.

Moreover, the Bank of Japan is probably right to claim, citing the Muramoto Construction liquidation as an example, that the disposal of these non-performing loans can occur gradually, in ordinary fashion, without a risk of systemic crisis in Japan's financial markets. And the bank is understandably worried that a publicly financed bail-out of the banking industry would generate moral hazard problems, although a few more resignations by senior bank officials would help.

Yet unless the Bank of Japan provides funds to capitalise the CCPC, it will take years rather than months for Japan's bad debt iceberg to thaw and melt. And until the banks are restored to health, the prospects for economic recovery will remain poor.

## Airbus Ltd

TO THE Anglo-Saxon eye, the structure of Airbus Industrie is an oddity. The four-nation aircraft group is not an ordinary limited company with its own balance sheet and profit-and-loss account but a marketing consortium, whose shareholders own the group's assets and share out the lion's share of the manufacturing contracts. To outside observers, its accounts are opaque and its manufacturing decisions often seem excessively influenced by political considerations.

Airbus's shareholders - especially France's state-owned Aerospatiale - have in the past argued that this structure was essential in the group's start-up phase. They say it enabled the company to operate on a trans-European basis and establish itself as a competitor to Boeing, the world's largest aircraft group. But now some insiders have again begun to question the structure. British Aerospace and Deutsche Aerospace - two of Airbus's shareholders - argue it should convert to a more conventional company structure which owns its assets and awards contracts on a commercial basis. Last week, Mr Jean Pierson, the group's managing director, who is on secondment from Aerospatiale, gave his backing to speed reform. Whatever the pros and cons of Airbus's consortium structure in its infancy, the arguments in favour of reform are compelling now that it has matured into the world's second largest civil aircraft supplier. One reason is that an ordinary corporate structure

would provide greater transparency in its accounts. This should enable Airbus's ultimate owners to judge whether further investment provides value for money. It should also reduce the threat of a trade war with the US, which is able to argue that foggy accounting practices act as a channel for subsidies.

A second, equally important reason for converting to a limited company is that it would help improve efficiency and so enhance Airbus's chances of competing successfully in world markets. If Airbus owned its assets, it would find it easier to control costs. It would also have greater freedom to follow commercial considerations in awarding contracts to suppliers.

At a time of deep recession in the airline market, the need to compete aggressively for orders is particularly strong. Boeing has already embarked on a far-reaching efficiency drive. Airbus's partners are doing the same, but not uniformly or with the same vigour. One worrying sign is that Airbus has suffered a fall in net orders so far this year, while Boeing's order book is still rising. Although Mr Pierson has now been persuaded of the case for speedy reform, this does not mean that the political battle has been won. The French government, in particular, will be reluctant to lose influence over Airbus's operations. But if greater freedom is necessary to secure Airbus's future, that is a price worth paying.

## Russian land

PRESIDENT BORIS Yeltsin's decree last week, giving Russia's collective and state farm workers the right to buy, sell, lease and pass on their share of the land, is an unambiguously good move. It gives Russian peasants a long-awaited right - and one long blocked by the now defunct Russian parliament - to emancipate themselves from state-serfdom and to become farmers, or to sell that right to others.

Privatisation of farmland is one of the most essential steps towards building a market economy, but in Russia it has been particularly problematic, thanks to the conservatism of farm directors and to the inertia of the peasants themselves. Subsidies to inefficient state farms are a huge burden on the state budget. Privatisation will push them into the free market, which is already growing as the more enterprising make deals for their produce with traders and middlemen.

But this is only the beginning. People long ago forced into a style of agriculture which emphasised dependence on the state and which criminalised initiative cannot suddenly become efficient producers of food. Like Soviet industry, Soviet agriculture has been pounded into its present shape over decades: that shape is inflexible and the inadequate roads, facilities and hopeless roads which a quarter of all production is lost.

The Nizhny Novgorod region, test bed for reform in association with the International Finance Corporation, shows how much preparation is needed for a successful transition. There, the owners are being guided towards auctions in a week's time which should see the emergence of a group of medium-sized farms run by farmworkers and bosses, with privatised machinery bases providing them with services. This approach will no doubt serve as a model, but will not be available in many parts of Russia.

The state must thus play an active role for some time to come - backing up the right to buy and sell, ensuring that conservative directors do not render it meaningless. Mr Yeltsin's decree creates a state inspection service with this task: like the relatively successful state property committees, this must guard itself for prolonged and potentially disruptive conflict with vested interests, region by region.

Most contentious of all will be the sale of land to foreign companies - though the decree clearly allows this, in association with Russian partners. The taboo has to be broken if foreigners are to be encouraged to become part of Russian reform. The first signs of confidence are returning to foreign companies after the roller-coaster of the past two years. Provided it is properly implemented, this measure could do more than any other to strengthen it, and at last begin to raise the Russian economy from its sickbed.

Mr Zhu Rongji, China's economic supremo, can scarcely have encountered more testing times than these in his stewardship of the Chinese economy. Nor can China itself have entered a more critical phase in seeking to expand its economic reforms.

When Mr Zhu surfaced in Shanghai a few days ago to open a bridge, it marked one of the very few recent public appearances for a man rarely out of the news in the first half of this year. China's senior vice-premier has had much on his mind, and on his plate, since he unveiled in July a 16-point austerity programme to control China's overheating economy. For the measures - which have raised interest rates, curbed speculative real estate investments and imposed a credit squeeze on state enterprises - have antagonised entrenched interests in the central bureaucracy, and among powerful local officials.

Under pressure from the provinces, and from the state enterprise lobby at the centre, Mr Zhu, who in June assumed the role of governor of the People's Bank, the central bank, has begun to ease monetary policy. The bank loosened credit restrictions in August and September, allowing money in circulation to grow by Yuan10bn (\$1.75bn) compared with Yuan1.45bn in the same period last year.

As the Communist party prepares for the crucial third plenary session later this year of its 14th Central Committee, an important policy-making body, there are two questions: have Mr Zhu and his reformist colleagues managed to preserve the integrity of measures advanced to cool an overheating economy, and perhaps more important, have they laid the groundwork for progress towards the next phase of the economic reform programme.

At this preliminary stage it appears that Mr Zhu, having weathered harsh criticism over some aspects of his austerity package, is close to seeing a fairly ambitious programme for reform of the banking, finance, and trade sectors adopted by the third plenum. China is planning to stiffen the regulatory functions of the People's Bank to enhance its authority over monetary policy and enable it to concentrate primarily on fighting inflation; to unveil a radical reform of the taxation system, including the introduction of a new revenue-sharing formula between the centre and the provinces; and to further liberalise trade to satisfy requirements for accession to the General Agreement on Tariffs and Trade. However, reform of crumbling state enterprises remains a murky area, and Mr Zhu may well have been obliged to back away from measures that would bring further hard-

Tony Walker and Edward Balls on the trials of China's reformists as they try to cool an overheating economy

## Big chopper falls with a thud

Little has emerged publicly of the heated debate within the Chinese leadership over the way ahead, but interviews conducted by the Financial Times with influential figures in economic policy-making have given a flavour of the intensity of discussions. Mr Zhu, at a series of stormy private meetings in Beijing and the provinces, has been forced to defend his actions, especially those that have squeezed funds for state enterprises, some of which are encountering wage difficulties.

Mr Dong Fureng, a member of the standing committee of the National People's Congress (which acts like the UK cabinet), and a leading economist, was surprisingly forthright. "Personally, I think Zhu Rongji's macro-control measures should be more flexible. Banks should quicken steps to provide loans to troubled enterprises. The negative effects are growing. If he is more flexible now, the economy will pay a lower price in the end."

Other prominent officials such as Mr Ye Sen of the Commission for Economic Restructuring were more circumspect, although they made little attempt to disguise their misgivings. "It is very necessary to have macroeconomic controls, but we have to distinguish different situations. We cannot just cut with one big chopper," he declared.

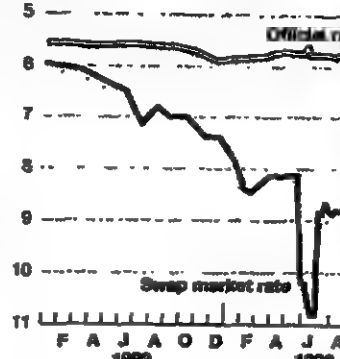
Mr Zhu's "big chopper", a reference to the heavy-handed kitchen utensil wielded by Chinese cooks, has certainly fallen heavily. But it has fallen less discriminately than Mr Zhu may have wished. His credit restrictions were aimed at recalling loans made to the "hot money" areas of the economy, such as speculative property ventures. Commercial banks have since struggled to recover real estate loans, so instead have recovered funds from profitable state enterprises, which depend on bank credit to finance their working capital.

A significant proportion of the new credit which the government has released since September have been directed to state enterprises, many of them faltering industries which need continuous cheap loans to stay afloat. Such a move may make political sense, but hardly squares with Mr Zhu's policy of

## China: heading for a hard landing?

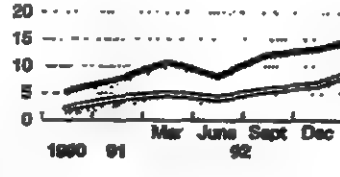
The exchange rate has stabilised.

Yuan per US\$



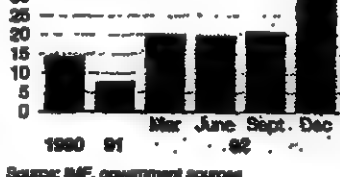
Inflationary pressures are starting to subside.

Cost of living index



...but output is still growing unsustainably fast

Industrial production



Source: IMF, government sources

redirecting investment towards profitable enterprises. Commercial bank portfolios are bulging with what the Chinese classify as "overdue" loans, but are, in effect, non-performing.

In defence of his measures, Mr Zhu is likely to have argued that initial gains in restraining unsustainable economic activity, and puncturing what has become known as the speculative "bubble economy", vindicate his approach.

His 16-point plan, in effect, put an end to illegal interbank lending through financial intermediaries such as bank-controlled trust



Zhu Rongji

and investment companies - so-called "triangular debt", drawn funds back into the banking system by clamping down on the issuance of enterprise bonds; and stabilised the exchange rate in currency trading houses known as "swap centres".

The exchange rate slipped to nearly Yuan11 to the US dollar in June, while the black market rate depreciated even further. But higher interest rates and central bank intervention have since stabilised the exchange rate at about Yuan 8.7 to the dollar, while some exporters complain that it is increasingly hard to sell their for-

eign exchange.

The austerity package has also taken some of the steam out of inflation. Annual inflation in the 35 main urban centres was 20.7 per cent in September, down from 23.3 per cent in July. Prices of commodities are also down sharply. For instance, steel prices fell by 34 per cent in the third quarter. Retail sales growth has also moderated.

Mr Zhu has also managed to find the money for infrastructure projects which were starved of funds in the first half of the year and, perhaps more important, he has ensured that restive farmers are being paid promptly for produce acquired by the state. Delays in honoring commitments to peasants had provoked political unrest.

In the six months to June, only 19 per cent of big construction projects under the present 1991-95 five-year plan were being adequately funded. The figure had risen to 70 per cent by September. However, fixed asset investment fell by more than 10 per cent in August over July, although the heavy capital spending of the early part of the year resulted in a nearly 70 per cent increase in the eight months to August compared with last year.

But Mr Zhu is not out of the woods yet. World Bank officials express concern that monetary policy has been loosened, even though inflation remains high and industrial output and retail sales are both rising by more than 20 per cent a year. Meanwhile, senior leader Deng Xiaoping's recent reported intervention in the economic policy debate to urge a commitment to reform and to continued economic growth was seen as a possible strike against party conservatives.

The reformists are engaged in a delicate balancing act they must exercise continuing restraint over an economy expected to grow by 13 per cent this year; at the same time they must confront the political difficulties associated with pressing further ahead into the uncharted waters of China's reform process. Mr Zhu will be worried that in his attempts to restrain activity he risks a hard landing, which may impede his ability to implement the reforms necessary to avoid another boom-and-bust cycle; but if he yields too much ground to those urging an easing of credit he risks a resurgence of inflation.

"Zhu Rongji has a much bigger agenda than slowing the economy," said a western official in Beijing. "Without the next stage of reforms of the institutions of macroeconomic policy, he knows that China will continue to run the risk of excess demand and instability... He is trying to put the thread through the eye of a very small needle."

## Nuclear answers need right questions



PERSONAL VIEW

The government review of the UK nuclear industry, scheduled for 1994 and then brought forward to 1993, is getting off to a slow start. The Department of Trade and Industry and the Department of the Environment disagree about the scope of the terms of reference and discussions are stalled awaiting the decision on whether the "Thorpe" processing plant is to go ahead.

The terms of reference could be narrow, as Mr Tim Ebor, energy minister, hinted in June, when he identified the central question as: "Would new nuclear power stations be commercially viable in the UK... without any subsidy from government or taxpayer." A narrow review is unlikely to do more than conclude that the industry may build new plant if it can find private capital. With such terms of reference the review will be futile. Nonetheless, this is apparently the route that government would

like to take, because it is consistent with the market-led energy policy, stoutly reaffirmed in the White Paper, *The Prospects for Coal*. The danger of a market-led policy is that it is at the mercy of market distortions. These distortions are serious in the energy sector, and have led to the perverse closure of viable coal mines and power stations while gas-fired plants are opened at higher costs. Taking the same approach to the nuclear industry is likely to have the same effect.

The situation is pressing. The ageing and obsolescent Magnox plant and, very soon, the first of the advanced gas-cooled reactors must be replaced if the nuclear industry is to have a future, and if it is to continue to make the 20 per cent contribution to UK electricity supply wisely proposed by the then energy secretary, Cecil Parkinson, when he designed the privatisation of the electricity supply industry.

Many advantages of nuclear power are not expressed in the marketplace. Supply is secure compared with natural gas, which in the next few decades will have to be brought from ever-more remote

areas. Nuclear electricity is one of the few energy forms which pays its environmental costs. If the idea of climate change arising from the greenhouse effect is taken seriously, then it is important to be able to express this benefit in decision-making.

In the US, Congress has written into the 1992 Energy Policy Act the idea of integrated resource plan-

**The danger of a market-led policy is that it is at the mercy of market distortions**

ning, which will provide the means to measure the social impact of energy planning. Something similar is needed in the UK. The review offers the opportunity to develop acceptable means of incorporating non-market factors into decision-making to establish a balanced portfolio of cost-effective, clean and secure energy sources. It is one thing to establish what

should go into this portfolio; it is another to achieve it in a sector that is largely privatised and market-oriented. The City would not buy nuclear generators the first time round. In the event, Nuclear Electric and Scottish Nuclear performed well, with output per employee rising by more than 50 per cent in three years, and costs falling and profits rising rapidly.

But the fundamental obstacles to privatisation remain: the perception of possible liabilities from decommissioning, fuel reprocessing and waste disposal are intimidating for private investors. There is still uncertainty about the cost of electricity from any new nuclear plant. We believe that electricity from a Sizewell C can be competitive with gas, but it is a question of convincing prospective investors. The main economic advantage of nuclear is that, once built, the fuel costs are low and stable and, therefore, so is the price of electricity.

A new nuclear plant is unlikely without government support. Government must find mechanisms which are coherent with Brussels' competition policy.

Instruments are available. Funding could be by issuing hypothecated government-backed bonds; access to markets could be facilitated by obliging regional electricity companies to contract part of their requirement over, say, 30 years; licences for the construction of power stations could be auctioned, with conditions specifying fuel choice, giving government influence over the type fuel burnt, while maintaining competition.

But the best answers will not be found without asking the right questions. The first step is a broad review seeking the methods of measuring the social impact of energy choices, and then the means of implementing the desirable choices.

Ian Fells and Nigel Lucas

The authors are, respectively, professor of energy economics, University of Newcastle-upon-Tyne, and professor of energy policy, Imperial College of Science, Technology and Medicine

## Sir Peter, QED

One might have thought Sir Peter Middleton, Danish former permanent secretary to the Treasury, would have delighted Bank of England directors last week with his wholly unexpected remarks about the desirability of Bank independence. But the terms in which he couched his remarks have done nothing to endear the wispish ex-mandarin to several directors of the court.

In evidence to the Commons Treasury and Civil Service Committee last week, Sir Peter outlined that the composition of the court would have to be changed if the Bank were to assume control in setting interest rates. In particular, all the members would have to be committed to fighting inflation, he went on, "unlike the present mob who look rather like a pressure group in the opposite direction".

Sir Peter, who did not return telephone calls to elaborate on this statement, was doubtless referring to the widespread assumption that many industrialists are less than fanatical about keeping inflation at bay, believing that a degree of price pressure may oil the wheels of the economy.

False, say the outside directors. Sir Christopher Hogg, chairman of Reuters, says he considers the remarks "very strange", while Sir

John "Chips" Keewick, chairman of Hambro Bank, says he has "never met an industrialist either on the court or off it who doesn't think inflation is appalling". Another court member thought Sir Peter was being "fatuous". The longest-serving Bank non-executive, Sir Adrian Cadbury, termed Sir Peter's comments "totally incorrect".

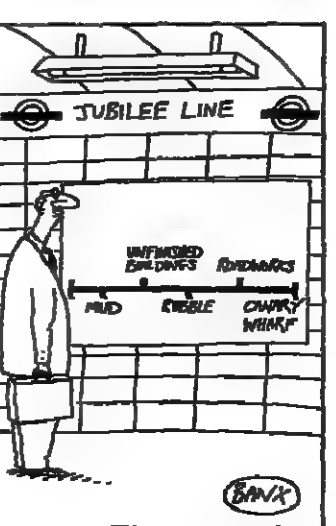
Sir Peter does have the occasional tendency to upset people, which may have been one of the things that counted against him when he was supposedly in the running for the governorship of the Bank before Eddie George was chosen.

## Lack of the Irish

The London office of the European Parliament, doing its bit to celebrate the onset of Maastricht, yesterday invited an expert from each of 16 states of the European Community - sorry, Union - to talk to the press about their new-found rights both to vote in next year's Euro-elections as well as to participate in local polls at a later stage. Somehow missing from the line-up was Ireland.

Joëlle Garraud-Maylam, elected representative of the French community in the UK and Ireland, went on the defensive by explaining that, while Ireland's ambassador had been invited, the Irish did not actually need to take part in this particular celebration since "for historical reasons" they have had

## OBSERVER



the vote in the UK for many years.

But this failed to satisfy one Irish member of the audience, who suggested that they could have hastily substituted "any Irish building labourer" in the event of the ambassador's no-show. "But I suppose alongside all those lawyers and actors, that would have been a bit embarrassing."

## Stationary

More klaxons wailing in the long-running offensive between Northumbria Ambulance Service's chief executive Laurie Caple and his critics.

Labour MPs from the north-east, bitterly opposed to Caple's management style and his enthusiasm for commercial income-generation schemes, have tabled an early day motion drawing attention to the latest in a series of tussles over subjects ranging from employees' conditions and dismissals, to the auditing of NAS accounts and the purchase of personalised NAS number-plates. It transpires that the £70,000 American-made Chevrolet ambulances ordered by NAS do not fit into some of its more modestly proportioned garages.

"There's an element of farce about it all, but it clearly calls into judgment the competence of the original decision to buy the vehicles," says Newcastle Central MP Jim Cousins.

But NAS will have none of it. We've only ordered six, it says, and they will happily fit into 19 of the 24 garages.

Observer just hopes that the right ambulance will be in the right garage at the right time.

## Panoramic view

Former KGB major-general Oleg Kalugin had reason to fear arrest throughout most of his eminent spying career, not least during his stint as a Soviet agent in the US. His escape from punishment at the hands of the KGB itself, when he publicly exposed its ruthless methods in 1980, was also

something of a feat. So he can't have been expecting the handcuffs to snap shut at Heathrow airport over the weekend as he tried to slip into Britain on a brief visit.

Kalugin may not have been up to his old spying tricks, but the British authorities could have been unsettled by his latest counter-espionage mission - taking up the invitation of the BBC's Panorama programme to talk about MI6.

Perhaps they were serving Kalugin, who was later released, a none-too-subtle hint that the kind of frankness he had demonstrated in exposing the KGB's deeds was less than welcome in the west.

Alternatively, Kalugin's troubles may date back to the interview he gave to *The Mail* on Sunday in April. Therein, he took it upon himself to spill the beans as to how the KGB had supplied Bulgarian "colleagues" with the infamous umbrella that fired poisoned pellets to kill a dissident in London 15 years ago.

Kalugin described the weapon in detail; he also revealed that it had been tested by his department first on a horse, which died, and on a man, who didn't.

## Blindingly obvious

How many PR men does it take to change a light bulb? "None that I am aware of, but that's a personal view."



## Japanese investors paid in toilet paper

By Eniko Terazono in Tokyo

**FUND MANAGERS** investing in Japanese stocks may find themselves with a pile of manure and toilet paper. Forced to cut dividends as earnings are hit by the country's prolonged economic slowdown, companies are starting to compensate shareholders with produce instead.

With most Japanese companies expecting an earnings decline for the fourth successive year, more shareholders are suddenly being deprived of their dividends.

Conson, a farming machinery maker listed on the Osaka stock exchange, says that instead of dividends it sent its 1,900 share-

holders bags of fertiliser made from manure and sludge, while Nippon Pulp and Paper gave 24 rolls of toilet paper to every stockholder. The move also helps companies reduce inventories.

Japanese workers are already sacrificing bonuses to help their employers. Managers at NEC last year agreed to accept vouchers which can be swapped for computers and television sets instead of year-end payments.

Some companies hope the gifts will help restore confidence, especially among retail investors disheartened by stock market scandals and last year's plunge of the Nikkei average to a six-year low.

The government had hoped that last week's flotation of East Japan Railway (JR East), the partially privatised regional railway operator, would bring retail investors back into the stock market. However, massive profit taking in JR East shares clogged up the Tokyo stock exchange's computer system, sending the market below the psychologically important 20,000 for the first time in three months. The Nikkei fell 264.73 points yesterday to 19,438.24.

Since Japan's traditionally low payout levels have never been much of an incentive for investors - the current average yield for the Tokyo market is about

0.7 per cent - companies also hope to lure investors with products. In the late 1980s, holders of Tokyo Electric Power shares were presented with kettles.

Amid public anxiety surrounding a shortage of rice due to this year's bad summer, Shinden, an electric appliance discounter based in Niigata, northern Japan, has decided to send shareholders bags of premium brand rice.

And as for the products now on offer, "I don't know what I'd do with the manure, but I could do with the toilet paper," says Mr Patrick Thompson at Fleming Investment Management in London.

## Major to unveil new peace plan for Northern Ireland

By Kevin Brown and David Owen in London and Tim Cooney in Dublin

**THE British government** promised yesterday to table a comprehensive peace plan for Northern Ireland if the province's four non-violent political parties agree to fresh peace talks.

Mr John Major, the prime minister, told Parliament the proposals would give "focus and direction" to the so-called three-strand talks, which collapsed last year when the Unionist parties walked out.

Mr Major gave no details of the peace plan, but his office said it was an attempt to bring about a permanent settlement of the Northern Ireland conflict.

The plan is believed to focus on the establishment of a Northern Ireland assembly and the revitalisation of local government.

It also builds on the agreement between the British and Irish governments in Brussels last week, which set out a framework for talks with all Northern Ireland parties except Sinn Féin, the political wing of the IRA.

The plan is aimed largely at the Unionist parties, who have long sought to remove control of the province from London.

Initial reaction from the Ulster Unionist party (UUP), suggested that the government might have to offer further concessions on the structure of the talks to tempt the Unionists back to the negotiating table.

Mr John Taylor, the party's spokesman on Europe, welcomed the prospect of fresh proposals but dismissed the round table format as "flawed."

He called for the plan to be discussed in bilateral meetings between the government and the constitutional parties.

Sir Patrick Mayhew, the Northern Ireland secretary, said the peace process could resume with "bilateral private discussions to clear things out of the way, bank what is bankable from last time, and to see what ultimately is a really serious obstacle. Then may be the time to sit round the table."

Ministers were also drawing comfort from the measured response of Mr James Molyneux, the UUP leader, who plans to take wide soundings among UUP members before committing later this week.

Mr Major's decision to offer a fresh incentive to the Unionists to reopen round-table talks marks the end of any prospects

for progress on the joint proposals produced by Mr John Hume, leader of the constitutional nationalist SDLP, and Mr Gerry Adams, president of Sinn Féin.

Mr Major yesterday accepted a request from Mr Hume for a meeting to discuss the proposals, but the government has ruled out even indirect contact with Sinn Féin until the IRA declares an unconditional ceasefire.

In Belfast, Mr Adams attempted to resuscitate the Hume-Adams proposals by issuing a statement asserting that "the leadership of the IRA welcomed the initiative and pointed out that it could provide the basis for peace."

However, the government is determined to sideline the Hume-Adams proposals to mollify the Unionists, who have ruled out a return to round table talks involving Mr Hume unless the SDLP leader repudiates his links with Sinn Féin.

In a further incentive to the Unionists, Mr Major linked the resumption of round table talks to the Irish government's offer to hold a referendum on dropping the republic's constitutional claim to Northern Ireland.

Unionists welcome move, Page 8

## US output expands but few jobs are created

By Jurek Martin in Washington

**THE present US expansion** in manufacturing continued in October, but with little evidence of a wave of job creation, according to the National Association of Purchasing Management.

Its monthly index of economic activity, based on reports by purchasing executives, rose to 53.8 per cent last month from the 49.7 per cent of September. Any reading over 50 per cent indicates expansion.

Production was at the highest level since last March, with 15 of the 20 industrial sectors covered reporting improvement over September. The new orders index jumped to 60.5 per cent compared with 50.3 per cent in the previous month and was the highest since the 67.2 per cent recorded in January.

The backlog of orders increased significantly in October, with new order orders rising for the third consecutive month. Inventories and prices also fell.

The NAPM, noting that its main index had averaged 51.8 per cent over the first 10 months of this year, said a continuation of October's levels for the final two months would imply an overall real growth in gross domestic product for 1993 of about 2.6 per cent.

Nevertheless, manufacturing employment fell again in October, although by a much smaller amount than the previous month. The employment index stood at 45.5 per cent, up 1 point from September and the highest since last March. A reading below 48 per cent indicates no net growth in jobs. But the current employment figures do imply measurable gains in productivity.

The only industries reporting growth in employment in October compared with September were furniture, fabricated metals, plastics and rubber, leather and transport equipment.

Meanwhile, the Commerce Department said spending on new construction projects rose by 0.8 per cent in September. The result mostly of new home building, this was the fifth consecutive month of increase.

## BT's cheap chatline

THE LEX COLUMN

BT's decision to turn price cuts required by the regulator into a marketing drive deftly makes a virtue of necessity. Its RPI-X per cent price control is a heavy ball and chain to carry. BT was also a little unfortunate that the low inflation rate in the month when the irons were clamped on has made the burden heavier - the company has to cut prices by 500m this year. Yet it chose to announce only £15m of the reduction yesterday.

From a marketing perspective, it perhaps makes sense to spin out the good news and ram home one message at a time. It soothes the profit and loss account to go slow on the implementation of lower tariffs, as the regulator has already noted. BT is well within its rights. Yet upsetting Ofel might be unwise.

The weighting of price cuts is significant. BT has focused on cutters, cutters and cable companies increases. Since competition in business services has already cut margins, defending or acquiring domestic customers is the logical next step. Further initiatives will probably be in a similar vein. Such price initiatives may blunt the erosion of BT's domestic base and slow Mercury's advance. Yet if the focus is away from the business market, its impact on Mercury's profitability should be limited.

As Mr Michael Hopper, BT's managing director, points out, telephone systems have high fixed costs. They also require high capital spending. Any increased use of the system is thus welcome. To prosper, BT is going to need to use good marketing to stimulate these domestic call volumes now that the watching is biting and the competitive wolf is at the door.

### Queens Moat Houses

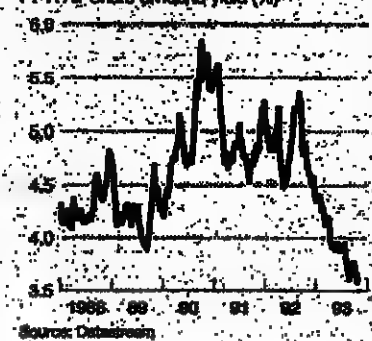
It is a fair bet that Weatherall Green and Smith will not be seated next to James Lang Wootton at the chartered surveyors' Christmas bash. The striking disparity in the two firms' valuations of Queens Moat Houses' hotels has caused a furor among property values. It is of particular alarm to the owners of QMH's £215m mortgage debenture stock. They previously believed their stock was generously secured on several of QMH's hotels. They now discover that the revised value of that property no longer covers the nominal value of the outstanding debenture stock.

Undoubtedly, there are particular difficulties in valuing hotels. A hotel's

FT-SE index: 3164.4 (-6.6)

UK market yield

FT-SE share dividend yield (%)



Source: Datastream

income stream can vary enormously depending on market conditions, and future forecasts rely on subjective opinion. How that income stream is capitalised to give a present value is also fraught with difficulties. In QMH's case, these calculations were perhaps especially tricky. The fixed fees QMH derived from many of its hotels may have induced a false sense of security about future income flow.

Nevertheless, the Royal Institution of Chartered Surveyors should urgently review its valuation procedures if the profession is to retain a credibility. As for debenture holders, they will always depend on vigilant and active trustees to protect their interests. But that task would be greatly simplified if borrowers were obliged to provide prompt and full disclosure about valuation criteria. That may raise issues of commercial sensitivity. But it would also provide its own rewards: those revealing such information should be able to secure funds more cheaply.

### UK budget

There is a timeliness to RZW's warning of possible action in the budget to remove the institutions' tax credit on dividends. Other options for raising revenue by pushing up indirect taxes look less attractive, given the strength of political opposition and worries about their impact on the headline rate of inflation. Mr Norman Lamont's initial attack on the credit in April passed with minimal protest. Granted, the equity market fell as it adjusted to lower yield horizons, but that has long been forgotten in the dizzy heights reached subsequently.

## US review of unitary tax

Continued from Page 1

Colgate case, the Supreme Court will revisit its 1985 decision in a case brought by Container Corp, in which it upheld the fairness of the unitary system.

Barclays' argument against the unitary method is that by running against the grain of internationally accepted tax practices, it interferes with the federal government's authority over foreign commerce, enshrined in the US constitution.

Colgate also argues that if the court outlaws the method for foreign-owned companies, it should provide equal protection for US-owned multinationals.

The cases are expected to be argued next March and finally decided by the end of June.

## British chancellor wins agreement on spending cuts

Continued from Page 1

the next three years.

The other areas, which will probably be cut heavily in the unified budget on November 30 are housing and roads, the local authority grant settlement and inner city regeneration schemes.

By contrast, the Department of Social Security, headed by Mr Peter Lilley, should emerge as one of the biggest "winners" in the public spending round.

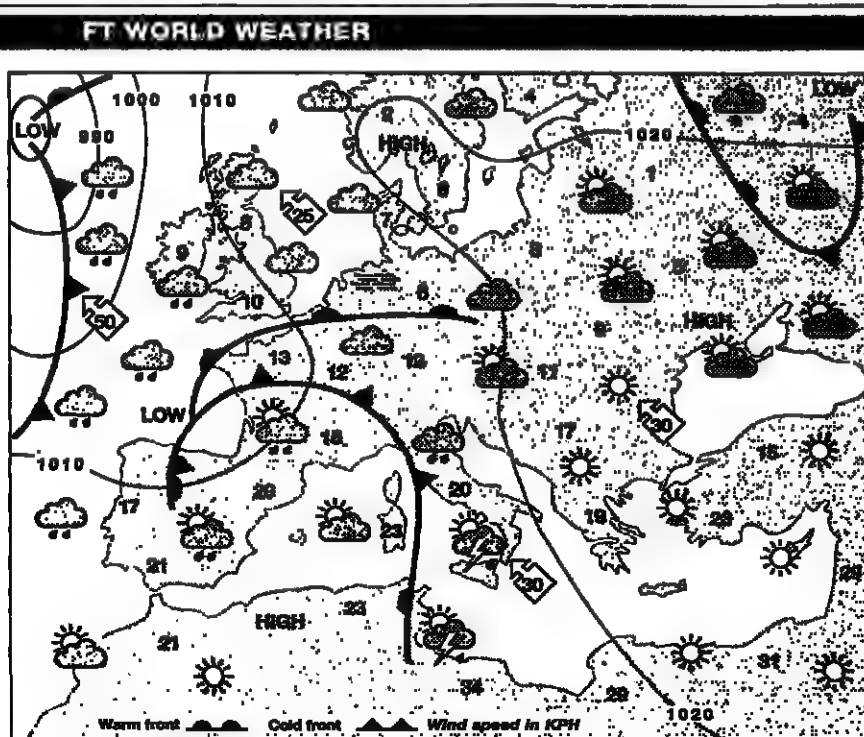
Mr Lilley has agreed to accept some harsh measures to curb the growth of invalidity benefit payments and to crack down on benefit fraud. But at meetings of the cabinet's EDX committee, where spending levels are thrashed out, there has been general agreement that the social security bud-

get should continue to rise in real terms.

Real increases in the budgets for health and education are also expected to emerge in the budget later this month, although they will be at a slower rate than in the case of social security.

Yesterday's statement took MPs by surprise because there had only been a limited opportunity to discuss public spending at last Thursday's cabinet meeting, which was dominated by Northern Ireland.

Last year, five sessions of the cabinet were required to reach general agreement on spending levels in the run up to the Autumn Statement. By contrast, departmental spending should be agreed this year after only two sessions of the cabinet.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

**Europe today**

A depression over the Gulf of Sicily will cause showers over Spain, Portugal and southern France. Northern Italy will have rain, while thundery showers will break out in southern regions. The British Isles will be cloudy with outbreaks of rain over the south-west. The Alps will be overcast but will remain dry. Northern France, the Low Countries and Germany will be cloudy with persistent fog in places. There will also be widespread fog in southern Scandinavia. Eastern Europe will have calm weather under an expansive area of high pressure. Poland will be mainly cloudy, but Hungary and Slovenia will have sunny periods. The Balkan states and Greece will be very sunny.

**Five-day forecast**

A series of low pressure areas will bring cloud and outbreaks of rain to the British Isles. The Low Countries, northern France and Germany will be cloudy but with sunshine as well as local showers. Temperatures will rise to more seasonable values. The Iberian peninsula, southern France and Italy will continue showery. From Friday, showers will develop over the Balkan states. High pressure and sunshine will continue over south-eastern Europe.

**TODAY'S TEMPERATURES**

Location	Max	Min	Weather
Abu Dhabi	34	24	sun
Accra	32	24	thund
Algiers	22	14	fair
Amsterdam	10	6	cloudy
Athens	18	10	sun
B. Aires	18	10	showers
Bangkok	31	24	showers
Barcelona	16	10	cloudy
Beijing	16	8	sun
Belfast	10	6	cloudy
Belgrade	14	8	fair
Bombay	32	24	fair
Buenos Aires	22	14	fair
Bogota	22	14	cloudy
Bombay	32	24	fair
Brussels	10	6	cloudy
Budapest	18	10	fair
Chengdu	18	10	cloudy
Cairo	30	22	sun
Cape Town	16	10	sun
Cardiff	10	6	showers
Chengdu	18	10	cloudy
Colonia	28	20	cloudy
Dakar	28	20	fair
Dallas	18	10	showers
Darwin	30	22	sun
Dublin	10	6	cloudy
Dunedin	10	6	cloudy
Edinburgh	10	6	cloudy
Faro	20	12	fair
Frankfurt	10	6	cloudy
Geneva	10	6	cloudy
Glasgow	10	6	cloudy
Hamburg	10	6	cloudy
Helsinki	10	6	cloudy
Hong Kong	24	16	cloudy
Honolulu	28	20	fair
Istanbul	18	10	sun
Jersey	10	6	cloudy
Karachi	30	22	sun
Kuwait	30	22	sun
L. Angeles	24	16	sun
Las Palmas	24	16	sun
Lima	24	16	cloudy
Lisbon	18	10	showers
London	10	6	showers
Los Angeles	18	10	cloudy
Lyon	10	6	fair
Madeira	18	10	fair
Madrid	18	10	showers
Manila	28	20	fair
Moscow	10	6	cloudy
Mumbai	30	22	sun
Melbourne	18	10	cloudy
Mexico City	28	20	fair
Miami	28	20	showers
Montreal	10	6	cloudy
Moscow	10	6	cloudy
Mumbai	30	22	sun
Nairobi	30	22	thund
Naples	18	10	showers
Nassau	24	16	sun
New York	18	10	fair
Nice	18	10	fair
Nicosia	28	20	sun
Ocho	10	6	cloudy
Osaka	18	10	cloudy
Perth	18	10	fair
Prague	10	6	fair
Rangoon	28	20	showers
Reykjavik	10	6	showers
Rio	28	20	sun
Riyadh	30	22	thund
S. Francisco	18	10	sun
Seoul	18	10	sun
Singapore	28	20	cloudy
Stockholm	10	6	cloudy
Strasbourg	10	6	cloudy
Sydney	18	10	fair
Taipei	28	20	showers
Taipei	28	20	thund
Tokyo	18	10	fair
Toronto	10	6	fair
Vancouver	10	6	showers
Verona	18	10	fair
Vienna	10	6	fair
Warsaw	10	6	fair
Washington	18	10	sun
Wellington	12	6	fair
Wien	10	6	fair
Zurich	10	6	fair

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## IN MERGERS & ACQUISITIONS, recognising and realising opportunity depends on the experience of your advisor.

<p><b>ALCO Standard Corporation</b></p> <p>through its wholly-owned subsidiary</p> <p><b>Alco Office Products (U.K.) Plc</b></p> <p>has acquired</p> <p><b>Erskine House Group PLC</b></p> <p>The undersigned acted as financial advisor to Alco Standard Corporation in this transaction.</p>	<p><b>IBM</b></p> <p>International Business Machines Corporation</p> <p>through its wholly-owned subsidiary</p> <p><b>Compagnie IBM France</b></p> <p>has acquired</p> <p><b>Compagnie Générale Informatique S.A.</b></p> <p>The undersigned acted as a confidential advisor to IBM in this transaction.</p>	<p><b>Kellogg</b></p> <p>Kellogg Company of Great Britain Limited</p> <p>has sold the assets of</p> <p><b>Cereal Packaging Limited</b></p> <p>to</p> <p><b>Low &amp; Bonar PLC</b></p> <p>The undersigned acted as financial advisor to Kellogg Company of Great Britain Limited in this transaction.</p>
<p><b>ITN</b></p> <p>Independent Television News Limited</p> <p>has been acquired by consortium consisting of</p> <p><b>Carlson Communications Plc</b>  <b>Central Independent Television plc</b>  <b>LWT (Holdings) PLC</b>  <b>Reuters Limited</b>  <b>Granada Group PLC</b>  <b>Anglia Television Group PLC</b>  <b>Scottish Television plc</b></p> <p>The undersigned acted as financial advisor to Independent Television News Limited in this transaction.</p>	<p><b>FINMECCANICA</b></p> <p>Finmeccanica Spa</p> <p>has merged with</p> <p><b>Alenia S.p.A.</b>  <b>Ansaldo S.p.A.</b>  <b>Elmag Bailey S.p.A.</b></p> <p>The undersigned acted as financial advisor to Finmeccanica Spa in this transaction.</p>	<p><b>Osem GmbH</b></p> <p>a wholly-owned subsidiary of</p> <p><b>Siemens AG</b></p> <p>has acquired the</p> <p><b>North American Lighting Business</b></p> <p>of</p> <p><b>GTE Corporation</b></p> <p>The undersigned acted as financial advisor to Siemens AG in this transaction.</p>

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computers that change everything.



## INTERNATIONAL COMPANIES AND FINANCE

# Union leader urges delay for Volvo merger meeting

By Hugh Carnegie  
in Stockholm

A SENIOR Swedish trade union leader yesterday called on Volvo to postpone next week's vote by shareholders on the proposed merger of its car and truck operations with France's Renault. Mr Peter Nygard, head of the white-collar union SIF, says more time is needed to assess the deal. The SIF has more than 5,000 members employed at Volvo. Mr Nygard was the first national trade union leader to publicly voice doubts about the merger, which has run into still resistance from the Swedish institutional shareholders who will decide the issue at a special shareholders meeting called for November 9.

"[Postponement] is the only reasonable way, as there are today too many large uncertainties about how the merger will function in practice," Mr Nygard said.

Union support has been extremely important to Volvo because many top labour figures sit on the boards of shareholder institutions. The SIF leader is a member of the board of the Fourth Fund state pension fund, which is the second-largest Volvo shareholder after Renault, with 7.5 per cent of the voting capital. The Fourth Fund is due to announce tomorrow how it will vote on the Renault-Volvo merger. Its decision is widely reckoned to be a key indicator of whether the deal will stand or fall.

Mr Nygard is also on the board of the insurance group SPP, which has 4.5 per cent of Volvo's voting capital and is also due to announce its final decision this week.

Volvo was under strong pressure from shareholders yesterday to provide further clarification of how it will secure its interests in the merged company. Volvo will have a 35 per cent share. However, Swedish shareholders are concerned by a lack of guarantees that state-owned Renault will be privatised as promised and by provisions attached to a subsequent "golden share" held by the French state. They fear this could be used in future to limit Volvo's shareholding to 20 per cent of Renault-Volvo.

Volvo acknowledged the company faced a "Catch 22" on the issue. Swedish shareholders have suggested postponing the merger until after privatisation, saying Volvo's share cannot be fully evaluated until Renault is a quoted company. However, Volvo has accepted the French case that Renault cannot be properly valued for privatisation until the merger is in place.

Under the licensing terms, the Greek state will take a 20 per cent cut of the casino's earnings, but is not yet there. DNB's high volume loan losses and non-performing loans are still lingering at unacceptable levels. Hopes are to reduce the level of credit losses during the next 14 years by 50 per cent to about Nkr1.2bn.

On Tuesday, DNB published a record result since being formed from a merger in 1990 between Den norske Creditbank and Bergen Bank. Pre-tax profit of Nkr720m for the nine months to September was achieved, against a pre-tax loss of Nkr2.45bn last year. CBK is due to report nine-month results on November 4 and could, on the same day, announce the details of its planned share issue.

The sharp improvement in the bank's health is due mainly to the low level of domestic interest rates, a marked rise in the domestic stock market, steady recovery of Norway's economy and emerging results of the past five years' hard slog of consolidation and restructuring. "Nobody last autumn would have believed we would have had the level of interest rates which we see today and if it had been suggested, the forecasters would have been quickly escorted to the nearest

# Greece to sell casino licences for Dr80bn

By Karin Hope in Athens

THE Greek government hopes to raise at least Dr80bn (\$343m) from the sale of eight new casino licences to international operators by the end of this year. Although the new socialist government has halted most projects included in its predecessor's privatisation programme, the casino scheme is to go ahead as planned, according to the economy ministry.

International, Sheraton, and Conrad Hilton are among 16 bidders shortlisted to set up and manage casinos in Athens, Thessaloniki and the resort islands of Corfu, Crete and Mykonos.

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# Norway banks see a brighter day

Lower interest rates helped Christiania Bank and DnB return to health a year after they were on their knees, writes Karen Fossli

Christiania Bank and Den norske Bank, Norway's two biggest banks, were forced to their knees last year under the burden of large losses. In desperation, the state threw them life-lines in the form of funding to enable capital adequacy requirements to be met. One year later, the banks are on the road to recovery and planning share issues which could net the state large windfall gains.

Analysts have warned the government against dumping its shares in the market at the same time as the banks' issues are launched. At current prices, the state's shareholdings in the two banks are worth about Nkr1.7bn (\$2.4bn).

According to Mr Ole Lund, DNB's chairman, the bank is approaching the "sunny side of life" but is not yet there. DNB's high volume loan losses and non-performing loans are still lingering at unacceptable levels. Hopes are to reduce the level of credit losses during the next 14 years by 50 per cent to about Nkr1.2bn.

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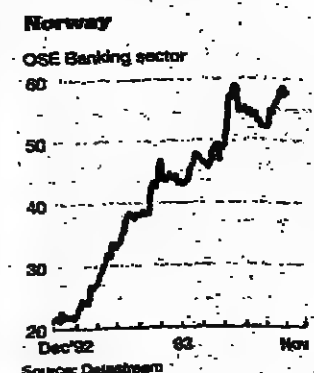
However, the banks' operating environment has since brightened. Inflation is at 2.3 per cent, its lowest level in three decades, and economic growth is forecast to accelerate to 3.0 per cent next year from 1.3 per cent in 1993. FOKUS Bank, Norway's third biggest commercial bank, yesterday reported that it had bounced back to pre-tax profit of Nkr246.8m for the nine-month period of this year from a loss of Nkr399.7m in the same period last year, writes Karen Fossli in Oslo.

FOKUS attributed the sharp improvement to a 50 per cent increase in credit losses, lower costs, and an improvement in securities and foreign exchange gains. Group net interest income slipped to Nkr821m from Nkr668.4m in spite of a 50 per cent reduction in interest costs to Nkr1.25bn from Nkr1.48bn.

Operating profit, before credit losses, rose to Nkr500m from Nkr192m as credit losses were cut by more than half to Nkr301.1m, or 1.33 per cent of gross loans, from Nkr620.4m. Fokas said the volume of non-performing loans had declined by 33 per cent since end of last year but attributed the distribution of loan losses to 74 per cent by the corporate sector and 26 per cent by private customers.

"It is with satisfaction we announce that positive developments in our result have continued. Even without income from securities and foreign exchange operations the bank shows a profit after losses," Fokas said. The bank achieved securities gains of Nkr131m against losses of Nkr76.5m during last year's nine-month period as foreign currency gains more than doubled to Nkr46.8m from Nkr20.2m. Fokas returned a net profit of Nkr246.8m against a net loss of Nkr399.7m last year. Group operating costs were cut to Nkr770.2 from Nkr1.01bn. "The bank is now seeing the results of a major turnaround operation and we will continue to reduce operating costs," Fokas said.

The two banks' planned share issues will have to be co-ordinated carefully so as not to destroy the market. And there is the matter of what the state intends to do with its shareholdings in the banks and its rights to convert preference capital to shares. Analysts have forecast that DnB would try to raise up to Nkr2bn in one issue but that CBK would make an initial issue and seek a listing in an attempt to improve the bank's market valuation before a second tranche is launched. CBK earlier this year said it intended to launch a public offering before 1994 but Mr Lund says DnB will have to first publish 1993 accounts and, preferably, have first-quarter results behind it before making a similar move. DnB wants to expand the bank's foreign ownership quota to 33.3 per cent from 12.5 per cent. Domestic and foreign analysts believe it



advantageous for DnB to be the first off the mark because it is stronger and better known internationally than CBK and has the added benefit of a listing on the Oslo Bourse. DnB's A-shares have increased five-fold to about Nkr20 each since the end of 1992 as the Oslo Bourse bank sub-index soared by 180 per cent during the same period. At current share prices the state's DnB stake is worth about Nkr3.5bn, excluding preference capital which, if converted to 350m shares at the bank's current share price, would be worth about Nkr7bn.

The state's shareholding in Den norske Bank thus equals about Nkr1.5bn compared to the Nkr6.4bn which it has injected into the bank. On the other hand, analysts say, if CBK's share issue is a success the likelihood of DnB achieving good fortune with its issue would be bolstered.

The state holds a 69 per cent stake in DnB which would be increased to above 80 per cent on a fully diluted basis if preference capital was converted to shares. The state virtually owns CBK, but the 7 per cent held by private investors is traded outside the bourse at about Nkr17 a share. A sale, even at this price, would net the state a handsome return. It would underline how light has pierced the gloom of Norwegian banking in the past five years.

# Philips alters ownership link with Grundig

By Ronald van de Krol  
in Amsterdam

PHILIPS, the Dutch electronics group, is to make changes to the structure of ownership at Grundig, the German consumer electronics company in which it has a 31.6 per cent stake.

However, Philips stressed that the move would have no effect on its relations with Grundig, over which it has exercised management control since 1984, nor on the level of its Grundig holding, which will remain at 31.6 per cent. Philips fully consolidates loss-making Grundig in its annual accounts.

The Dutch company said it planned to spend a sum of less than fl 1m (\$525,000) on buying out three German and Swiss banks which own shares in Grundig Verwaltungs GmbH. This company is the managing partner in another company, Grundig E.M.V. & CO KG, which acts as a corporate control and profit transfer company for Grundig AG.

# Hafslund nine-month profits increase 5%

By Karen Fossli

HAFSLUND Nycomed, the Norwegian group best known for its radiology products, yesterday reported a 5 per cent increase in nine-month pre-tax profits to Nkr1.18bn (\$168.6m) from Nkr1.13bn in the same period last year. It was helped by the strength of the US dollar and Japanese yen.

Hafslund said it would reduce costs in the fourth quarter, and channel more resources into research and development and strengthen its marketing network.

Group sales in the first nine months of this year rose by Nkr357m to Nkr4.17bn as operating profit, before research and development costs, slipped by Nkr47m to Nkr1.68bn. R&D costs increased by Nkr67m to Nkr527m. The group posted financial gains of Nkr35m against charges of Nkr138m in the same period last year. Hafslund lifted net profit in the first nine months of this year by Nkr33m to Nkr330m.

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Hafslund lifted net profit in the first nine months of this year by Nkr33m to Nkr330m.

# Atlas Copco buys US group

By Christopher Brown-Humes  
in Stockholm

ATLAS Copco, the Swedish industrial components group, has agreed to buy the European standard compressors business of Indresco, the US group.


The purchase, on undisclosed terms, will strengthen Atlas Copco's leading position in the European compressors

market and broaden its product range and distribution network.

The operations being acquired are based in Meru in France and are marketed under the names, Creysseasac and Worthington.

They have annual sales of \$50m and about 240 employees. The most important markets are France, Spain, Italy and the UK.

This announcement appears as a matter of record only



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Deutsche Schiffsbank AG	Citibank, N.A.
The Mitsubishi Bank, Limited	Sunbank Miami N.A.
ABN AMRO Bank N.V.	Schiffsbank Hamburg AG
Schiffsbank Hamburg AG	Schiffsbank Hamburg AG

Co-Agent

NationsBank of Florida, N.A.

Lenders

Hamburgische Landesbank-Girozentrale	Citibank, N.A.
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Schiffsbank Hamburg AG	Schiffsbank Hamburg AG

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September 1993



## NORTHERN IRELAND AIRPORTS LIMITED

As previously announced, the Department of the Environment for Northern Ireland intends to privatise Belfast International Airport in 1994 and the enabling legislation, an Order in Council, will shortly be laid before Parliament for approval. Preliminary expressions of interest are now being sought from prospective purchasers who wish to pre-qualify.

Belfast International Airport is the fifth largest regional UK airport and the leading airport in the Province. In 1992/93 the Airport served over two million passengers, generated £23 million in turnover and £2.5 million in profits after tax.

A Pre-Qualification Memorandum is now available to interested parties. This provides outline information on the airport. It also sets out the data which the Department of the Environment for Northern Ireland initially requires in order to pre-qualify purchasers.

Pre-Qualification applications should be submitted by 1 December 1993.

Prospective purchasers who pre-qualify will be provided, subject to confidentiality undertakings, with a detailed Information Memorandum to assist them in preparing their tender.

The Pre-Qualification Memorandum is available from the lead advisers to the Department of the Environment for Northern Ireland on the privatisation:

Eileen Walker, Touche Ross & Co  
Priory Court, 65 Cruched Friars  
London EC3N 2NP  
Tel: 071 936 3000

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<b>Mortgage Securities (No. 1) Plc</b> <b>£22,000,000</b> <b>Class A</b> <b>Mortgage Backed Floating Rate Notes due 2023</b> In accordance with the provisions of the notes, notice is hereby given that for the interest period 29th October, 1993 to 31st January, 1994 the notes will carry an interest rate of 6.05% per annum. Interest payable on the relevant interest payment date 31st January, 1994 will amount to £1,588.59 per £100,000 note. Agent Bank: Bank of Scotland	<b>Mortgage Securities (No. 1) Plc</b> <b>£22,000,000</b> <b>Class B</b> <b>Mortgage Backed Floating Rate Notes due 2023</b> In accordance with the provisions of the notes, notice is hereby given that for the interest period 29th October, 1993 to 31st January, 1994 the notes will carry an interest rate of 6.25% per annum. Interest payable on the relevant interest payment date 31st January, 1994 will amount to £1,608.59 per £100,000 note. Agent Bank: Bank of Scotland
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**Mortgage Backed Floating Rate Notes 2018**

The rate of interest for the three month period 29th October, 1993 to 31st January, 1994 has been fixed at 6.075 per cent. per annum. Coupon No. 22 will therefore be payable on 31st January, 1994 of £1,564.52 per coupon.

Aggregate interest charging balances of Mortgages redeemed during the previous interest period: £4,383,716.21

Aggregate interest charging balances of Mortgages redeemed during 29th October, 1993: £195,472.13

The aggregate principal amount of Notes outstanding as at 29th October, 1993: £93,200,000

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Bankers' Trust Company, London Agent Bank

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U.S. \$60,000,000 Floating Rate Notes Due 2000

In accordance with the provisions of the Notes, notice is hereby given that for the interest period 29th October, 1993 to 29th April, 1994 the Notes will carry a rate of interest of 1.5375% per annum, with a Coupon Amount of U.S. \$2,655.42 for the U.S. \$10,000 denomination and U.S. \$6,635.42 for the U.S. \$50,000 denomination, and will be payable on 29th April, 1994 against surrender of Coupon No. 17.

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KB Internationale Financieringsmaatschappij N.V.  
U.S. \$150,000,000 Guaranteed Floating Rate Notes due 2011

In accordance with the Description of the Notes, notice is hereby given that for the interest period from October 28, 1993 to January 31, 1994 the Notes will carry an interest rate of 5% per annum.

The Interest Amount payable on the relevant Interest Payment Date, January 31, 1994 against coupon No. 31 will be U.S. \$30.58 per U.S. \$10,000 principal amount of Note and U.S. \$3,253.58 per U.S. \$250,000 principal amount of Note.

The Agent Bank

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ARGENTARIA



## FT CONFERENCES

**AFTER THE RECESSION - WORLD COMMERCIAL AVIATION AT THE CROSSROADS**  
Dubai, 4, 5 & 10 November  
Timed to coincide with the Dubai International Aerospace Exhibition, the conference will examine the political, economic and structural changes which the commercial aviation industry is now facing and which will influence corporate policy and planning in the years ahead. Speakers include: H.H. Sheikh Ahmed Bin Saeed Al Maktoum, President of the Dubai Department of Civil Aviation, Tan Sri Zain Azhari, Chairman of Malaysia Airlines, Mr. Peter Bae, President of KLM Royal Dutch Airlines, Mr. Colin Sullivan, Assistant Chief Executive, GFA Group plc, and Dr. William Frame, Director, Air Navigation Bureau, International Civil Aviation Organisation.

**WORLD ELECTRICITY**  
London, 16 & 17 November  
This year's FT/Power in Europe conference brings together speakers from Europe, the USA, Latin America, South Africa and China to debate how the electricity industry is responding to a more competitive environment. Speakers include: Mr. Mohamed Arif, Commission of the European Communities; Dr. Ing. Ludwig Stauda, Bayernwerk AG; Professor Jan Popczyk, Polish Grid Company; Dr. Mary D. Archer, National Energy Foundation; Mr. Gianfranco Cassati, ENEL SpA and Mr. Robert J. Sanderson, The World Bank.

**THE ECONOMICS OF RAIL PRIVATISATION - OPPORTUNITIES FOR THE PRIVATE SECTOR**  
London, 22 November  
This high-level one-day conference will examine the opportunities - and pitfalls - in passenger service franchising, the new leasing market in railway rolling stock and the management of track infrastructure. Speakers include: The Rt Hon Roger Freeman MP, Minister for Public Transport; John Smith QC, Rail Regulator Designate; Roger Salmon, Franchising Director Designate and Robert Horton of Railtrack.

**THE PETROCHEMICAL INDUSTRY**  
- Global Prospects Beyond the Recession.  
London, 22 & 23 November  
The current challenges facing petrochemical producers and the longer term outlook for the industry will be reviewed, with papers on pricing, restructuring, corporate governance and competition issues. Speakers include: Mr. Robert D. Kennedy, Union Carbide Corporation; Mr. Clive H. Thompson, ARCO Chemical Europe; Inc; Dr. Albert D. Richards, Crost Solvay; First Boston; Mr. Makoto Takada, Maruch, Inc; Dr. Najm Amin Alattia, Gulf Organisation for Industrial Consulting; Mr. Andrew Reynolds, Applied Market Information Ltd and Mr. Edward A. Wilson, Dow Europe SA.

**VENTURE FORUM EUROPE '93**  
London, 23 November - 1 December  
Arranged jointly by the Financial Times and Venture Economics, the Forum brings together industry experts from Europe and the USA to discuss the issues and opportunities affecting the European venture capital community. The Forum will include sessions on new approaches to fund raising; buyouts; the outlook for technology investing in Europe and future forecasts.

**DOING BUSINESS WITH SPAIN**  
- The Economic Challenges of the New Government.  
Madrid, 1 & 2 December  
The FT's annual conference, entitled with Expansion and Actualised Economics, will review the economic, budget and labour policies of the new Spanish Government as well as important questions on Europe's future and the conditions for monetary and political union. The distinguished panel of speakers include: D. Pedro Solbes Mira, the Spanish Minister of Economy & Finance; Prof. Dr. Oskar Lafontaine, Member of the Board, Deutsche Bundesbank; D. José Antonio Gilman Martínez, the Spanish Minister of Labour & Social Security; and D. Luis Angel Rojo, Governor of the Bank of Spain.

**WORLD TELECOMMUNICATIONS**  
London, 7 & 8 December  
The conference debate will focus on the trends changing the shape of the world telecommunications industry, with particular emphasis on regulation and the methods, challenges and obstacles of privatisation. Speakers include: Mr. Don Cuckshank, Director General of OFTEL; Mr. James H. Quella, Chairman of the Federal Communications Commission; Mr. Mario Dandele, Conseiller d'Etat, French Ministry of Posts and Telecommunications; Mr. Raji Khorram, Director General of the Hungarian Telecommunications Company and Mr. Saeed Khat, Chief Executive Officer of Belgacom.

**PENSIONERS - A Time for Change**  
London, 7 & 8 December  
Following the publication of the Goodwin Committee's Report, the conference will discuss key issues of concern to pension fund administrators and their advisers and examine investment strategies in a climate of low inflation. Mr. William Hague MP, Department of Social Security will give the opening address and speakers include: Mr. Tom Rye, Clay & Partners; Mr. Brian Matthews, ESN Pension Management Group; Mr. Hugh Stevenson, Mercury Asset Management Group plc; Mr. Ron Sykes, Legal & General Assurance Society Limited and Mr. Rodney Dennis, Prudential Portfolio Managers Limited.

**THE OUTLOOK FOR NATURAL GAS IN THE 1990s AND BEYOND**  
Vienna, 13 & 14 December  
This topical meeting will consider developments in key markets, evaluate supply and demand, and examine the financing of gas projects. Speakers include: Mr. Richard C. Green, J. UIICorp; Mr. H. John Henshaw, BP Exploration Operating Company Limited; Mr. Ceddric H. Brown, British Gas plc; Mr. Horben Detharding, Winterhal AG; Mr. Osmel Nard, Sonatrach and Mr. Hassan Rostami Sani, National Iranian Gas Company (NIGCO).

All enquiries should be addressed to: Financial Times Conference Organisation, 102-108 Clerkenwell Road, London EC1M 5SA. Tel: 071 814 9770 (24 hour answering service) Fax: 071 814 9770

## INTERNATIONAL COMPANIES AND FINANCE

## Canadian Pacific result shows continuing recovery

By Robert Gibbons in Montreal

CANADIAN Pacific, the transport and resource group, continued its underlying turnaround in the third quarter but the results were dragged down by special charges. The improvement is expected to continue, despite a slow Canadian economy.

The fast-expanding Pan-Canadian Petroleum, 87 per cent owned, and Forcing Coal, a western exporter, made sharply higher contribution in the third quarter and nine months. The rail unit did better in the second and third quarters.

CP Ships, CP Trucks and CP

Hotels improved their performance.

Third-quarter income from continuing operations was C\$1.7m (US\$1.3m), up from C\$1.5m a year earlier, but after special items the overall loss came out at C\$106.5m, or 33 cents, against a loss of C\$205.5m or 64 cents. Revenues were C\$1.7bn, from C\$1.6bn.

The first nine months showed income from continuing operations ahead at C\$160.3m, from C\$85.3m, but after special items the loss was C\$73.1m or 23 cents a share, compared with a deficit of C\$224.3m or 70 cents a share. Revenues were C\$4.8bn, against C\$4.5bn.

The special items included losses on the sale of the Forest Products unit, CP's share of Laidlaw's special charges, partly offset by gains on asset sales. The 1992 result included heavy write-offs for CP Rail's restructuring.

The group recently sold control of Canadian Pacific Forest Products, one of North America's biggest newspaper producers, to reduce its debt and to make its earnings less volatile. Mr. William Stinson, chairman, said steps were being taken to reduce losses at the 46 per cent-owned United telecommunications affiliate and a restructuring charge was possible in the fourth quarter.

## US insurer nets \$417m from TIG stake sale

By Richard Waters in New York

TRANSAMERICA, the San Francisco-based insurer, is close to leaving the property/casualty business with the sale of its remaining 27 per cent stake in TIG Holdings.

Based on yesterday's share price, the sale of 17.5m TIG shares would be worth \$417m. The insurer floated TIG as a separate company on the New York Stock Exchange earlier this year as part of a move to concentrate on life insurance and financial services.

Ahead of the flotation, it was expected to retain a substantial stake in TIG for some time before being able to complete the disposal at a favourable price.

However, a turn in the property/casualty underwriting cycle has led to higher premiums in some parts of the market, bolstering profits in recent months and adding to investors' interest in insurance companies.

TIG, which was floated at \$22 a share, was trading at \$24 yesterday after the news. "We had indicated at the time [of the flotation] that we had intended to reduce our holding of the common stock as promptly as possible," Transamerica said yesterday.

The insurer has exercised an option under an agreement made at the time of the flotation to sell its remaining shares.

A registration statement for the sale is expected to be filed with the Securities and Exchange Commission within the next two weeks, TIG said. Transamerica's share price rose 1% on the announcement to \$27.

Edper Enterprises, a key company controlled by the Peter and Edward Brouman interests of Toronto, plans a convertible preferred share issue to be distributed by way of rights, writes Robert Gibbons in Montreal.

Edper Enterprises controls Brascan, a financial services holding company, Hees International Bankcorp, a holding company, and Carena Development, a property group.

## Kaiser Aluminum incurs \$21m loss in third quarter

By Laurie Morse in Chicago

KAISER Aluminum of the US posted a net loss of \$21m or 42 cents per share in the third quarter. The company is the latest in a series of US aluminum manufacturers that have reported losses as a result of a worldwide oversupply of the metal.

Kaiser said that historically low aluminum prices and weakness in prices for rolled aluminum used to make aircraft bodies and beverage cans would force a restructuring at its Troutwood plant in Spokane, Washington.

This would result in a fourth-quarter pre-tax charge against earnings of between \$30m and \$40m.

Kaiser's third-quarter loss compares with income of \$3.9m, or 6 cents per share, in the same period a year ago. Third-quarter sales fell to \$428.4m from \$458.5m a year earlier.

Kaiser's customer shipments of primary and fabricated aluminum fell to 148,200 metric

tons in the third quarter, down from 164,700 tons in the third quarter of 1992. Alumina shipments to customers advanced to 576,900 in the quarter, from 469,300 last year.

For the first nine months of the year Kaiser, which is 88 per cent owned by the natural resources company Maxxam, reported a loss of \$57m, or \$1.05 per share, before extraordinary charges.

This compares with profits of \$24.3m, or 42 cents per share for the first nine months of 1992. Sales for the first nine months of the year were \$1.3bn, down from \$1.4bn last time.

Maxxam reported a net loss of \$33.3m or \$3.42 for the third quarter, compared with income of \$7m or 7 cents in the third quarter of 1992. Sales for the quarter were \$506.5m, down from \$531.7m a year ago.

For the first nine months Maxxam reported a loss of \$88.5m, or \$7.24 per share, excluding special charges, compared with income of \$3m or 33 cents a year earlier.

## Alcan Aluminium plans further round of cuts

By Robert Gibbons

ALCAN Aluminium, facing the deepest and longest post-war recession in ingot and fabricated products prices, will become smaller and leaner, warns Mr Jacques Bougie, president and now chief executive.

Alcan's downstream businesses must "demonstrate clear potential" if they are to get further investment, Mr Bougie said in the company's internal magazine.

Mr Bougie suggested that a new round of cuts will focus on Alcan affiliates making and products. Those that do not measure up or lack a sound profitable future will be sold.

The group will concentrate on primary smelting and sheet and fabricated products and is seeking to lower its alumina costs further. It has already

introduced cuts at its Irish alumina plant, near Shannon. Alumina is derived from processing bauxite and becomes a white powder and the primary material in aluminium smelting.

Alcan has 49,000 employees worldwide, down from nearly 70,000 nearly a decade ago. It operates more than 20 units making a wide variety of aluminium products, used widely in construction and transportation and including cable. Some periphery units have already been sold.

The company has cut about US\$500m from its cost base, mainly in North America, in its struggle to become a low cost producer, and effective yesterday realigned its main business groups. It recently received a large US consultants' study of its worldwide organisation.

## Compaq launches new products

By Louise Kehoe in San Francisco

COMPAQ Computer yesterday launched an array of new personal computer products and slashed the prices of some of its models by 10 to 23 per cent.

The large number of new models reflects increasing segmentation in the personal computer market, with separate product lines aimed at different distribution channels and types of customers, from individual purchasers to large corporate buyers.

Other PC companies, including Apple and IBM, are following a similar strategy with different "brands" or lines of

products targeted at various segments of the market.

Compaq's new products for business users include high performance desktop PCs based on Intel's latest Pentium microprocessors, with prices starting at \$2,799.

Other new models include energy-saving features that can significantly cut electricity consumption and costs in offices. New ProLinea models, with built-in PC networking capabilities start at about \$1,350.

Compaq also stepped up its presence in the rapidly growing consumer PC market with the introduction of 10 new models to its Presario family.

These include models with stereo sound and video capabilities and pre-installed software. Prices start at about \$1,550.

"With the launch of these new PCs for home and business users, Compaq continues to play a key strategic role in the emergence of these two distinct, but equally important PC markets," said Mr John Rose, vice-president and general manager, desktop PC division.

The company, which recently reported a 64 per cent rise in 1993 third-quarter revenues to \$1.75bn and net income more than doubled to \$107m, also said yesterday that its third-quarter sales in Japan had increased by 350 per cent.

## Telecoms venture to be reshaped

By Philip Gawth in Johannesburg

SIEMENS, South Africa's Reunert and GEC of the UK are to rationalise their South African telecommunications activities with the aim of strengthening their position in the local market and improving export prospects.

A new company, Siemens Telecommunications, will be created to focus on providing infrastructure.

Telephone Manufacturers of South Africa (TMSA), an existing joint venture between the

three groups, will be restructured and concentrate on making terminals, pay-phones and key systems.

Siemens Telecommunications will be 51 per cent owned by Siemens of Germany, 27.5 per cent by Reunert and 21.5 per cent by GEC. TMSA will be 41 per cent owned by Reunert, 33 per cent by GEC and 26 per cent by Siemens, compared to equal one-third stakes before the deal.

The companies are responding to the prospect of greater competition in the local market after international liberal-

isation of the telecommunications sector and technological developments which have forced rationalisation among equipment suppliers.

The lifting of economic sanctions against South Africa will only enhance competition further, with companies previously prohibited from doing business there, such as Ericsson from Sweden, now free from restrictions.

Siemens Telecommunications will have annual turnover of about R800m (\$190m) while TMSA's sales will be around R400m.



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## SKF Interim Statement

SKF Group sales for the period January 1 to September 30, 1993, amounted to SEK 21,521 m (£1,873m) compared with SEK 19,990m (£1,800m) for the first nine months of 1992. However, adjusted for CTT Tools - which was included in the 1992 sales figure - and the weakening of the Swedish krona, sales declined approximately 7 per cent compared with the corresponding period in 1992. The result includes:

SEK 110m (€9.6m) for future personnel reductions. An extraordinary income of SEK 173m (€15m) from the sale of the Sandvik Jernverk was recorded. The Group reported a loss, after financial income and expense, of SEK -709m, (€-62m) compared with a loss of SEK -361m (€-32m) in the first nine months of 1992.

Demand in Europe has levelled out and increases were noted in certain markets.

The positive trend which characterised the first half of the year in the U.S. continued.

Demand in markets outside Europe and the U.S. continued to develop positively.

## Forecast:

The forecast from the half-year report 1993, that the second half of 1993 will show a better result than the first half, remains unchanged.

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For the six months 29th October, 1993 to 29th April, 1994 the Notes will carry an interest rate of 7.02344% per annum with an interest amount of ECU135.07 per ECU10,000 Note and ECU8,876.85 per ECU250,000 Note, payable on 29th April, 1994.

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## INTERNATIONAL COMPANIES AND FINANCE

## Upjohn survival hopes rest on new medicines

The expiry of four drug patents has troubled the US drugs group and brought R&D into sharp focus. Paul Abrahams reports

UPJOHN, America's 12th largest drugs group, has been one of the best-performing US pharmaceuticals stocks this year. Its shares have risen 11 per cent over the past 12 months, compared with an 11 per cent decline by other health and household stocks.

Upjohn's performance is based on the belief that the Kalamazoo-based group has become a takeover candidate. Like other pharmaceuticals companies, it is suffering from an increasingly hostile health-care environment that has reduced growth of the US pharmaceutical market to only 3 per cent during the first half of the year.

But Upjohn is in a worse plight than most. Its predicament has been exacerbated by a series of patent expiries in the US, its most important market.

Three of the group's leading drugs have lost their American patents over the past 12 months. Those protecting Ansaad, an anti-arthritis, expired in February. Earlier this month, Xanax, an anti-anxiety drug and Halcion, a sleeping pill, lost their patent protection. Next May, patents for a fourth drug, a diabetes treatment called Micronase, also expire.

Mr Lay Smith, chief operating officer, admitted, last

month that earnings next year would be lower than in 1993. A combination of the patent expiries, new legislation affecting the tax charge for its Puerto Rico manufacturing facilities, and a faster-than-expected increase in the power of bulk purchasers of health will affect the group's bottom line.

The expiries are highly damaging - Xanax is the group's most important drug and accounted for 30 per cent of its American healthcare sales in the first nine months of this year.

Brokers Wertheim Schroder estimate the medicine generated 35 per cent of Upjohn's operating income last year. Altogether, generic competition for the four drugs could affect between a quarter and a third of Upjohn's 1993 earnings per share by 1994, estimate the brokers.

Just when the group needed firm leadership, its misfortunes were compounded when chairman Theodore Cooper died of cancer in April. Since he started leading Upjohn in 1967, he had helped increase sales by nearly 50 per cent.

Since Mr Cooper's death the composition of the board has been unsettled. In August vice-chairman Mr Mark Novitch announced his decision to step down. The following month, Mr William Parist, another

vice-chairman and member of the Upjohn family, stepped down as an executive director. His departure increased the possibility the family might be willing to sell its substantial stake.

Mr Smith, also acting chairman, insists the company will remain independent and has a strategy to deal with the patent expiries.

"When you register a patent you know when it's going to expire. We've had plenty of time to plan for this," he says.

However, what Mr Smith does not have immediately to hand are new products capable of compensating for the lost sales, which is partly a research and development failure.

"We didn't make enough of the products we had and we missed some good opportunities to license in some subsequently successful medicines," admits Mr Smith.

The top R&D management has been changed and the new team is racing to bring products through the development pipeline. Most promising is Freedox, a treatment for stroke and head injuries. The medicine is in a class of steroids called Lazaroids, discovered by Upjohn and named after the Biblical character Lazarus who was raised from the dead.

Freedox should be registered with the US Food and Drug

Administration for its first indication before the end of the year, says Mr Smith, and could be launched by the middle of next year. Some analysts believe it could generate \$500m annual sales.

Other compounds in development include fluvoxamine, a

Smith is trying to defend Upjohn's off-patent products. "We expect to lose between 40 per cent and 60 per cent of these drug's sales. The question is how fast they erode," he said.

The company has an agreement with Geneva Pharmaceuticals, a subsidiary of Ciba, which will market generic versions of Xanax, Halcion, Micronase and Ansaad. Upjohn will manufacture the product for Geneva, which avoids the group's production facilities standing idle.

Like some other pharmaceuticals groups, Upjohn is also trying to expand its over-the-counter (OTC) non-prescription drug business. This will allow it to extend the product life of its medicines, such as the hair-loss treatment Rogaine, by selling them direct to patients without a prescription. The group's OTC business has increased 300 per cent since 1986, but with sales of only \$200m a year the operations do not have critical mass, admits Mr Smith.

"The problem is whether to form an alliance and, if you do, how to keep control, or whether to make an acquisition. We have no presence in Europe, and we need to reinforce the US operations, particularly in the dermatological area," he says.

To minimise the fall in earnings next year Mr Smith is slashing costs. The patent expiries forced Upjohn to cut costs earlier than most other US pharmaceuticals groups, and last week it announced its third restructuring package at a cost of \$255m.

By the end of 1994 the group will employ 17,500 people, down from 21,100 at the beginning of 1993.

Upjohn is also cutting 14 production pharmaceuticals, chemicals and agricultural products manufacturing sites, although Mr Smith refuses to give details. The entire cost-cutting programme should generate annual savings of \$150m by 1995, he says.

Mr Smith insists he will not cut R&D spending, which is running at 18 per cent of turnover - a high figure by industry standards. R&D is the lifeblood of the company, he says.

"We could match 1993 earnings next year by cutting R&D spending, but we just have too many good ideas that are getting too close to fruition," he explains.

Upjohn's management is gambling on the success of its development pipeline, and in particular the Lazaroids. The question is whether they will be as effective at resuscitating Upjohn as stroke victims.

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## NEWS IN BRIEF

## US defence cuts mean 1,150 jobs go at Raytheon

RAYTHEON, the US electronics group, is to cut 1,150 jobs in Massachusetts, as part of a plan to reduce costs to cope with shrinking US military spending, reports AP-IL.

The group said the job losses would follow a voluntary retirement programme that has already trimmed the payroll by 800 jobs, 600 of them in Massachusetts.

The combined cuts will bring the company's Massachusetts work force down to 21,050, compared with a peak of 31,100 in 1989.

Raytheon and other military contractors have been forced to retrench as the federal govern-

ment slashed the defence budget in the post-Cold War era.

Among the sites suffering cuts will be Raytheon's Andover plant, which makes the Patriot missile that came to prominence in the Gulf War. It will lose nearly 400 jobs.

Despite the falling defence budget, Raytheon has remained profitable, not only by cutting costs, but also by focusing on other businesses such as energy and environmental services.

## Bahamian hotel sold to German group

THE Casino Management Group of Berlin has bought an 81 per cent stake in one of the largest hotels in the Bahamas from the Carnival Corporation of the US for \$65m, writes James Gault in Kingston.

Carnival Corporation will maintain a minority interest in the 867-room hotel and casino, which will be refurbished by the German company to become an up-market destination for European tourists.

Carnival, which operates Carnival Cruise Lines, began searching for a buyer for the hotel last year, after it recorded a \$33m loss in 1991. The company will use \$35m of the sale price to liquidate debts on the three-year-old hotel.

## Petro-Canada continues turnaround

PETRO-Canada, now partially privatised, continued its turnaround in the third quarter helped by strong gas sales and downstream rationalisation, writes Robert Gibbins in Montreal.

Net profit was C\$55m (US\$41.6m), or 22 cents a share, against a loss of \$66m, or 26 cents, including special items. Revenues were \$1.17bn, against \$1.2bn.

Nine months' profit was \$198m, or 51 cents, compared with a loss of \$18m, or 8 cents a share. Revenues were \$3.44bn, against \$3.47bn.

## Blockbuster plans 12.6m share sale

BLOCKBUSTER Entertainment of the US plans an underwritten sale of 12.6m shares. Reuter reports.

Blockbuster said it intended to use the proceeds to reduce debt. It added that the shares being offered represent about 5.2 per cent of its outstanding stock.

## Placer Dome sharply lower in third quarter

By Robert Gibbins in Montreal

LOWER gold output and lower average prices for gold and copper depressed profits of Placer Dome, the Canadian international mining group, in the third quarter and first nine months of 1993.

Third-quarter profit was US\$13m, or 8 cents a share, down sharply from \$33m, or 14 cents, a year earlier, on revenues of \$229m, against \$284m, including investment income of \$10m, against \$20m.

For the first nine months of the year, profit was \$45m, or 19 cents a share, against \$98m, or 29 cents, on revenues of \$696m, against \$834m. Both periods include special items.

Gold output was 450,000 oz in the third quarter, down from 508,000 oz and in the nine months 1,354,000 oz, a decline 8 per cent from 1,473,000 oz a year earlier.

Cash production cost in the nine months was \$188 per oz, compared with \$182 in the same period last year, while the average realised price of gold in the nine months was \$376 oz, slightly above the average market price.

Gold output declined due to lower grades and a reduced stake in the big Forgera mine in New Guinea and the sale of several mining interests. Eight of Placer's 13 producing mines reduced their cash costs.

## KLOOF GOLD MINING COMPANY LIMITED

(Registration No. 64/04482/03)  
(Incorporated in the Republic of South Africa)

## ANNOUNCEMENT

This follows an announcement, dated 20 October, concerning the interruption of underground operations in the area served by the No. 3 Sub-Vertical Shaft of the Kloof Division of the company.

Rectification of the damage, caused by the fall of pipework in the shaft on 13 October, is proceeding in parallel with assessment thereof. It is therefore not possible to predict when this process will be completed.

Stopping and development teams from the affected area have been deployed elsewhere within the division. The milling rate has been maintained at the planned level of 180 000 tons per month since 13 October. It is expected that the company will be able to report in January 1994 that this rate has been achieved throughout the quarter, which commenced in October 1993, with gold production matching that of the previous two quarters.

Surface accumulations of ore, resulting from previous underground production rates in excess of the milling capacity, will be sufficient to continue supplementing production from elsewhere underground well beyond the end of the December 1993 quarter.

The impact on the financial performance of the company will thus be minimised.

1 November 1993

Johannesburg

A member of the Gold Fields Group

## APPOINTMENTS

## FIXED INCOME SALESPERSON

A leading international investment group requires a Fixed Income Salesperson to originate and market the group's financial products to Japanese institutions. The incumbent, aged early-30s, must be fluent in English and Japanese, educated to degree standard, have minimum 7-9 years' industry related experience, be familiar with Japanese client base from a business and cultural perspective and have in depth knowledge of U.S. fixed income securities and their use by Japanese clients. Additionally, must have thorough knowledge of debt products and markets worldwide, specifically syndicated loans, private placement and asset swaps. Strong communication and interpersonal skills essential. Salary negotiable.

Please write in strictest confidence, enclosing full curriculum vitae, to Box B1891, Financial Times, One Southwark Bridge, London SE1 9HL.

## SWAPS MARKETER

Leading international investment house requires experienced capital markets specialist to develop and implement swaps marketing strategies for European and Asian clients. Candidates, aged 25-35 and educated to degree standard, must have international capital markets experience, with a minimum six years' comprehensive experience of managing client relationships with financial institutions. Product knowledge and experience must include a range of debt products and markets, in particular interest rate swaps and asset swaps. Salary negotiable.

Please write, enclosing full curriculum vitae, to Box B1892, Financial Times, One Southwark Bridge, London SE1 9HL.

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NOVEMBER 1993

LASMO

LASMO (ULX) Limited

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LASMO plc

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Revolving Credit Facility

ARRANGED AND UNDERWRITTEN BY

NatWest Capital Markets

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LEAD MANAGERS

ABN AMRO Bank N.V./Mees Pierson N.V.

Canadian Imperial Bank of Commerce

Chemical Bank

Morgan Guaranty Trust Company of New York

National Westminster Bank Plc

NationsBank

The Bank of Nova Scotia

Royal Bank of Canada

The Royal Bank of Scotland PLC

Société Générale

MANAGERS

Bank of Montreal

The Bank of Tokyo, Ltd

Bayerische Landesbank Girozentrale

Citibank, N.A.

The Fuji Bank, Limited

The Long-Term Credit Bank of Japan, Limited

The Sumitomo Bank, Limited

Union Bank of Switzerland

Westdeutsche Landesbank Girozentrale

London Branch

FACILITY AGENT

National Westminster Bank Plc



NATWEST MARKETS

Corporate &amp; Investment Banking

National Westminster Bank Plc. A member of UMR

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus.

New Issue/October 21, 1993

\$510,227,675.44

DAIMLERBENZ

Daimler-Benz Auto Grantor Trust 1993-A

3.90% Asset Backed Certificates, Class A

Daimler-Benz Auto Receivables Corporation

Seller

Mercedes-Benz Credit Corporation

Servicer

Price 99.590625% Per Class A Certificate

plus accrued interest at the Pass-Through Rate calculated from October 15, 1993

Copies of the Prospectus may be obtained in any jurisdiction in which the announcement is circulated from only such of the Underwriters, including the undersigned, as may lawfully offer these securities in such jurisdiction.

J.P. Morgan Securities Inc.

CS First Boston

Goldman, Sachs &amp; Co.

C.J. Lawrence/Deutsche Bank Securities Corporation

Merrill Lynch &amp; Co.

Chase Securities, Inc.

Citicorp Securities, Inc.







## Péchiney loan oversubscribed

7	Over 5 years (11)	188.62	-0.61	188.44	0.63	4.29	13	inflation rate 10%	Up to 5 yrs.	1.52	1.89	1.52
8	All stocks (73)	186.94	-0.02	185.50	0.70	4.27	14	inflation rate 10%	Over 5 yrs.	2.97	2.87	3.55
9	Bonds & Loans (68)	143.33	-0.28	143.60	1.95	8.75	15	Debt & Loans	5 years	7.94	7.78	8.80
							16		15 years	8.15	8.11	9.95
							17		25 years	8.28	8.22	10.15



## COMPANY NEWS: UK

Margins squeezed by rising scrap metal costs

## ASW shares fall 41p after profits warning

By Andrew Baxter

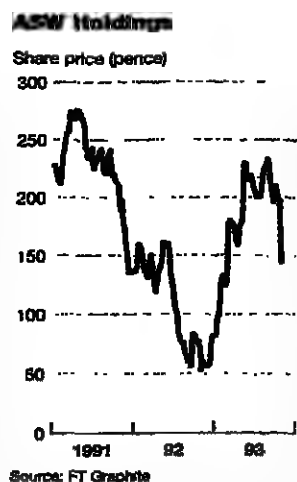
SHARES IN ASW Holdings plunged by 41p to 147p yesterday after the Wales-based steel products group issued a profits warning because of rising scrap prices and reduced selling prices in the recession-hit continental European market.

Analysts had been predicting pre-tax profits ranging from £7.5m to £15m or more, but yesterday one said he had "pencilled in" a downgraded forecast of £3m for 1993. Last year, the company suffered a pre-tax loss of £10.8m.

ASW had warned at the interim stage in September that the price of scrap, its main raw material, had risen sharply in June. Yesterday it said the price had fallen in August but had since risen again.

The company said that as a result of this, together with weak selling prices for ASW's principal products in continental Europe, margins had declined significantly from those experienced in the second quarter, with weak selling prices for principal products in Europe adding to pressure.

Provided that market condi-



tions did not change substantially, the group's steel activities would stay in profit during the second half, but profits would be lower than the £5.7m achieved in the steel business in the first six months, the company said.

ASW's steel businesses were the star performer in the first half, rebounding from profits of just £900,000 a year earlier, and a loss of £1.4m for 1992. In contrast, ASW's much

smaller construction systems business suffered a £2.5m loss for the first half, but is expected to reduce its deficit in the current half. Overall, ASW had a first-half pre-tax profit of £1.5m.

Mr Alan Cox, ASW's chief executive, said in September that he was "more confident than for a long time" about the company's main steel business. But he was cautious about the outlook for steel margins.

Yesterday ASW said that, given the volatility of European margins, it was too early to make any comments about 1994 - when some analysts were expecting big rises in profits.

Mr Ian Lowe at Smith New Court has downgraded his 1993 profits forecast from £11.7m to £3m, reflecting reduced losses in construction systems as much as the problems in the steel business. "These have some longevity about them," he said.

His 1994 prediction is reduced from £20m to £9m. ASW said that, in the absence of unforeseen circumstances, it intended to pay an unchanged final dividend of 3p a share, making a total of 6p, also unchanged, for 1993.

## Stanley Leisure upbeat and buying bookmakers chain

By Peggy Hollinger

SHARES IN Stanley Leisure rose 20p to 249p yesterday as the betting shops and casino group issued an upbeat trading statement and announced the \$9m acquisition of the bookmakers chain Selwyn Demmy (Racing).

The company said yesterday that after the first six months, "the trading performance in both the betting shop and casino divisions are considerably ahead of the same period last year."

Analysts revised their forecasts for the year to the end of April from \$3m to \$10m.

Stanley is buying 48 betting shops in the north-west of England through the acquisition of Demmy Investments,

which owns Demmy Racing. Demmy's 48 shops bring the number of outlets operated by Stanley's racing division to 401.

The company said that it expected to make significant savings from the integration of Demmy's shops with its own. Stanley is paying \$9m for Demmy Investments. This figure will be adjusted however, subject to Demmy's net asset position.

The consideration will be satisfied by the issue of 589,620 Stanley Leisure shares at 239p, \$250,000 in cash and the balance in loan notes repayable within three to five years. The vendor has agreed not to sell the Stanley shares for at least one year.

Demmy Racing returned

profits of £247,000 for the year to February 27, on sales of £35.2m. However, this was before charges of £342,000 for interest on loans to the company by directors, depreciation of goodwill, and executives' remuneration.

Demmy Investments is expected to show a debt of £1.85m to Mr Selwyn Demmy, which will be repaid in cash on completion.

Last year Stanley Leisure returned annual profits of \$8.05m, a rise of 3 per cent, in spite of an estimated \$300,000 loss on the Grand National debacle at Aintree when the race was called off after two false starts.

Sales for the 53 weeks were £218.4m, against £203.3m in 1992.

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the directors are expected to raise or reduce the dividend or to make any other changes to the company's financial policy.

Company	Date
British Airways	Nov 10
British Petroleum	Nov 10
British Telecommunications	Nov 10
British Virgin Islands	Nov 10
British Water	Nov 10
British Wool	Nov 10
British Wool Textiles	Nov 10
British Wool Textiles	Nov 10
British Wool Textiles	Nov 10
British Wool Textiles	Nov 10

## Lloyds Chemists in Scottish buy

Lloyds Chemists has acquired John Hamilton Pharmaceuticals for £4.65m in cash. Hamilton is an established pharmaceutical wholesaler, operating from a 45,000 sq ft freehold site at Clydebank, north of Glasgow.

In the year to May 31 1993 it reported turnover of £46.4m.

## Morgan Grenfell Equity Income

The net asset value per share of Morgan Grenfell Equity Income Trust stood at 139.7p at the September 30 year end, against 122.8p six months earlier and 94.15p at the previous year end.

## Ruberoid bounces back to the market

Flotation completes Tarmac's programme of disposals. Catherine Milton reports

RUBEROID yesterday announced a return to the stock market almost five years to the day that Tarmac fought and won a bitter nine-week battle to take over the roofing materials company with rival bidder Raines Industries.

The flotation, which is likely to value a now substantially smaller Ruberoid at about £70m, completes Tarmac's programme of disposals intended to strengthen the building materials and construction company's balance sheet weakened by recession.

About 65 per cent of the new issue, sponsored by Robert Fleming, is likely to be placed firmly with institutions and 35 per cent placed subject to claw-back in an open offer. The company does not expect to raise a significant amount of new money.

Tarmac's £141.3m bid, described in 1988 as a classic white knight operation, engaged the City for weeks as Mr Thomas Kenny, Ruberoid's then chairman, engaged in a pointed public debate with Mr Peter Parkin, Raines' chief executive.

Mr Ian McPherson, who is stepping into the top job at the new Ruberoid company, said: "I know Ruberoid will be remembered. It has only been off the market since 1988."

Ruberoid currently generates about 60 per cent of its sales from contracting, of which 70

per cent comes from less cyclical refurbishment work. The balance is in manufacturing bituminous waterproofing systems predominantly for the construction industry and distributing them from warehouses in Lancashire, Dundee and Enfield.

The company, which Tarmac roughly halved through disposals, has been on the market for trade buyers since April but the parent said no realistic price was suggested during preliminary talks with potential purchasers.

This made the prospect of seeking a listing on today's high market, with investors now generally willing to pay more than trade buyers, all the more attractive to both Tarmac and Ruberoid's management.

Mr Neville Simms, chief executive of Tarmac, said: "Of course you take advantage of the fact that there is a more obvious and visible value to the people who are running the business."

Mr McPherson, who is quitting the post of president of Tarmac America to become chief executive of the new company, said: "They are good businesses and they always have been." He said: "Personally I have always wanted to run a plc company because I have done everything else. I have lived with a huge division inside a big group which has all of the disadvantages of a plc and none of the advantages."



Ian McPherson: stepping into the top job at Ruberoid

to fulfil this ambition he is bringing the waterproofing businesses of Ruberoid and Tarmac to the market, of which the main companies are Ruberoid, Permatite, Briggs Amasco, NEBI and ATAR. Mr McPherson claims for the Ruberoid businesses a 25 per

cent share of the UK roofing market and a 16 per cent share of the country's specialist roofing contracting market. The large shares might have given any trade buyer difficulties with the Office of Fair Trading. ATAR in Belgium and NEBI in the Netherlands are leading

manufacturers of waterproofing products as well as roofing and cladding contractors.

The businesses brought together for the flotation made pre-tax losses of £12.8m (losses of £5.7m) in the year to December 31 on turnover of £280.4m (£263.8m).

The deficit was struck after provisions of £11.3m (£6.3m) with the bulk against redundancy and reorganisation as well as some to cover poor contract results. There was also a notional interest charge of £6.1m (£3.8m).

There are no exceptional items forecast for 1993 and the interest charge for the current year is likely to be just below £1m following a refinancing which should ensure an average gearing of about 10 per cent during the year.

Mr McPherson said: "The current order position supports our forecasts; we don't yet see any major upturn in the UK. We think the market will be strong by 1995."

He said the board's strategy would be to "major on the brand names" such as "all the Permatite and Ruberoid" which, he said, had become for builders as generic as Hoover. The company expects to capitalise from roofs which have been neglected during the recession. Mr McPherson plans to hold equity in the company as do all the directors: "We are going to put our money where our mouth is," he said.

## Wilton cuts losses to £785,000

WILTON GROUP, the USM-traded toys, hardware and electrical goods concern, cut pre-tax losses to £785,000 in the first half of 1993. This compared with £2.51m last time, which was after a £2m provision for future losses on discontinued operations.

Losses included £463,000 attributable to Glenchawton, in which Wilton held a 70 per cent stake until August 1993, when it was reduced to 34 per cent. In accordance with FR 3, Glenchawton's results have been reported as relating to discontinued activities.

Total turnover for the period fell from £14.67m to £8.85m, of which £481,000 (£462,000) related to continuing operations. Net interest charged was £263,000 (£219,000) and losses per share came out at 0.13p (0.37p).

Available revenue for the year amounted to £1.25m (£922,000) for earnings of 5.13p (3.79p) per share. An increased final dividend of 2.5p (2.45p) is proposed, making a total for the year of 4.5p (3.45p).

## Trinity acquires Argus newspapers

Trinity International, the Chester-based publisher of the Liverpool Daily Post and Echo, is acquiring the 27 local newspapers owned by Argus Press.

The move follows last week's approval of the deal by the Department of Trade and Industry. Trinity is paying £30.7m in cash for the south of England pre-paid and free titles. In addition, Trinity will pay a further estimated £1.5m cash for stock, reimbursement for the benefit of pre-payments and to assume trade creditors. In the year ended March 31 1993, the assets being acquired made a net profit of about £60,000 on turnover of £25m, with a net book value of about £5.7m.

The deal gives Trinity a presence in the south of England for the first time and furthers its strategic aim of expanding and diversifying its regional newspaper interests.

June 30, against a profit of £153,000 last time. Turnover was down from £5.45m to £4.33m. After increased tax of £640,000 (£208,000) there was an attributable loss of £1.08m (£15,000) and losses per share of 9.4p (1.3p).

A final dividend of 1.4p (1.8p) is proposed, making a 1.8p (2.7p) total. The comparative dividend included a 25p special payment.

## Abtrust Emerging issue oversubscribed

Valid acceptances totalling 54.8m shares were received by Abtrust Emerging Economies Investment Trust in respect of the 50m ordinary shares offered for subscription with warrants attached.

The basis of allocation is: up to 10,000 shares in full; 10,000 to 25,000 shares, 85 per cent; 25,000 to 50,000 shares, 50 per cent; 50,000 to 100,000 shares, 75 per cent; 100,000 to 175,000 shares, 50 per cent; 175,000 to 250,000 shares, 50 per cent; 250,000 to 500,000 shares, 25 per cent; and 500,000 shares and over, 15.25 per cent.

## Malaya pays £1m for dealership

Malaya Group, the motor retailer, has paid £1m cash for the Mann Egerton dealership at Colchester, Essex. Additionally, vehicle stocks will be bought at agreed values.

The company also announced that Mr Ronnie Lancaster, founder of the Lancaster group, and Mr John MacArthur, chairman of MacArthur & Co. and a former director of Kleinwort Benson, were to join the board as non-executive directors.

## Courtaulds expands in Indonesia

Courtaulds, the chemicals company, is continuing its development in the Far East with the opening of a 57m coatings factory in Jakarta, Indonesia.

The factory is owned by PT Courtaulds Coatings Indonesia, a joint venture between Courtaulds, with an 80 per cent stake, and Dharmala, an Indonesian group, with 20 per cent.

## Mid Kent Holdings buys Linkclever

Mid Kent Holdings, the water supply company, has acquired the Linkclever group of companies, including CRI - its radio and telemetry data collection, transfer and control arm.

The maximum possible cost of the purchase is \$4.4m. However, on current profit projections, the board estimates that the actual amount will be about £2.3m in cash.

MKH will pay £2.5m - £2.1m on completion with a balance of up to £400,000 dependent on the audited net asset value of CRI at the completion date. Thereafter, a profits-related payment of up to £1.5m is payable.

CRI estimates that the additional amount will not exceed £800,000.

## GR Holdings incurs loss and cuts final

GR Holdings, which has the Grayshot Hall health hydro, property dealing and sheepskin manufacturing as its principal activities, made a pre-tax loss of £488,000 for the year ended

## Hartwell disposes of Ford dealership

Hartwell, the motor distribution group, has sold its Ford dealership in Lincoln to Pen-dragon Group.

Hartwell will retain the freehold of the site and it is planned that the dealership will relocate in a year's time.

## MIM Holdings buys UK zinc smelter

MIM Holdings, the Australian metals group, has finalised the purchase of a zinc smelter and manufacturing plant at Avonmouth for £47.6m.

The Imperial Smelting Process smelter, which employs some 600 people, was bought from Pasminco, and is designed to give MIM downstream zinc processing capacity.

MIM directors said that the smelter could have particular strategic significance once output from the McArthur River mine project comes on stream in a couple of years' time.

The smelter has the capacity to produce 120,000 tonnes of zinc and 65,000 tonnes of lead bullion, while the associated

manufacturing plant at Brix-wich produces a range of value-added zinc products.

## Roskel sells plant hire arm for £1.28m

Roskel, the specialist suspended ceilings contractor and partitioning and ceiling distribution group, is selling the business and assets of Access Rental, its plant hire arm, to Nationwide Access Platforms for £1.28m in cash.

The proceeds will be used to reduce Roskel's debts and the group's gearing is expected to fall from 45 per cent to 30 per cent by the year end.

At end-1992 Access incurred losses of £896,000 and had net liabilities of £2.6m.

## BM continues disposal programme

As part of its continuing restructuring, BM Group, the construction equipment combine, has signed an agreement for the sale of Komatsu America Corporation of its shareholding in Linder Industrial Machinery for £13.4m (85m).

A further payment of up to £1.5m is dependent on the net assets of Linder at completion. BM expects to incur a deficit of about £1.5m on the disposal.

Linder, a North American distribution company, was acquired by BM as part of its purchase of Blackwood Hodge in November 1990.

## Grand Central falls £745,500 into red

Grand Central Investment Holdings, the food group with interests in Asia Pacific, fell £745,500 into the red in the six months to June 30.

That compared with a profit of £1.01m last time and was struck on turnover up from £29.8m to £32.5m.

The decline was due to the closure of the Singapore manufacturing plant and its relocation to Malaysia and Indonesia coupled with the continued downturn in performance of commodity-related operations, the directors said.

Losses per share were 1.27p (1.47p earnings). There is no dividend this time (0.45p).

## Pex losses deepen to £744,000

Pex, the reorganised hosiery manufacturer which is now concentrating on its children's brands, increased pre-tax losses from £405,000 to £744,000 for the half year to July 31. Turnover was down to £5.9m (£6.41m).

The operating loss on continuing operations deepened to

## Loss at Westminster Scaffolding rises

Losses at the USM-quoted Westminster Scaffolding Group rose from £524,000 to £1.6m pre-tax for the half year to April 30. The deficit per share rose by 1.9p to 3.2p.

In consideration for the purchase from the Biggest Group of scaffolding worth £150,000 Westminster is issuing 1.5m new ordinary 10p shares at par. The issue represents 2.3 per cent of the ordinary equity.

## TR Far East net assets improve

TR Far East Income Trust had a net asset value of 180.5p at August 31 compared with 81.6p a year earlier. Fully diluted, the value was 161.5p and 83.9p respectively.

Net revenue for the year improved from £2.15m to £2.44m for earnings of 5.29p (4.56p) per share. A fourth interim dividend of 1.3p (1.5p) is declared making a total of 5p (4.5p). The directors have forecast a dividend for the current year of not less than 5.3p.

## London Secs in asset talks with Nu-Swift

London Securities, the property investment company, has begun preliminary talks on acquiring certain of Nu-Swift's property assets.

Nu-Swift, which holds a 29.3 per cent stake in London Securities, provides fire protection equipment and services and cleaning and maintenance services.

## Allen to acquire Andrew Sykes arm

Allen is acquiring Centabre, a tool hiring subsidiary of Andrew Sykes Group, for an estimated £715,000.

Centabre, based in Exeter, County Durham, has six depots in the north east. In the year to March 31 1993, it made an operating loss of £37,777 on turnover of £1.16m.

## Seafoods buy for Perkins Foods

Perkins Foods has acquired the Cromer Crab Company, a Norfolk processor and supplier of crabs and shellfish, for a consideration to be submitted to the issue to the vendors of £30,000 new ordinary 10p shares.



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5000	50.00	0.50	1.00%
6000	60.00	0.60	1.00%
7000	70.00	0.70	1.00%
8000	80.00	0.80	1.00%
9000	90.00	0.90	1.00%
10000	100.00	1.00	1.00%

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1000	10.00	0.10	1.00%
2000	20.00	0.20	1.00%
3000	30.00	0.30	1.00%
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7000	70.00	0.70	1.00%
8000	80.00	0.80	1.00%
9000	90.00	0.90	1.00%
10000	100.00	1.00	1.00%

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## COMPANY NEWS: UK AND IRELAND

## Bass acquires 34% of Prague Breweries

By Philip Rawstone

BASS, the UK's leading brewer, has agreed to acquire a 34 per cent stake in Prague Breweries, the second largest brewer in the Czech Republic, for £25m.

The deal is Bass's first overseas brewing venture since it sold its interest in Lamot, the Belgian brewer, 12 years ago.

Mr Ian Prosser, Bass chairman and chief executive, yesterday described the Prague deal as "an important first step" in the group's search for opportunities for international expansion.

It offered good prospects for further development in the Czech market and for increased exports, he said.

The Prague group, which will have net assets of £20m after the deal is completed, plans to invest £50m over the next five years in expanding and modernising its three breweries. It has a 10 per cent share of the Czech beer market which is about a quarter the size of that of the UK.

Prague's sales of £38m last



Stanislav Prochazka, general manager of Prague Breweries

year included a significant contribution from exports, mainly to eastern and central Europe. Bass will introduce Prague's leading premium lager, Staropramen, into the UK and a number of other international markets next year.

The UK brewer will have four seats on the Prague board and a number of senior managers will be seconded to the group.

## Cranswick shares drop 32p on warning

A WARNING yesterday from the directors of Cranswick that interim profits would be below their previous expectations sent the company's shares down by 32p to 169p.

Following an "extremely disappointing" performance from the pig rearing activities in the second quarter they expected pre-tax profits for the half year to September 30 to be about £700,000 compared with £968,000 previously.

However, the interim dividend was expected to be held at 2.4p when the results are announced early next month.

The directors blamed the second quarter setback on a "substantial and unforeseen fall in pig prices throughout August and September, compounded by higher feed costs resulting from flooding in the US and a late harvest in the UK."

They pointed out that pig prices had continued to fall in October and would have an impact on that month's profitability.

The group's other activities, grain and feed, "were continuing to trade satisfactorily" with most performing ahead of budget.

## Unions agree to staff cuts at Aer Lingus

By Tim Coone in Dublin

AGREEMENT was reached yesterday between management and unions at Aer Lingus, the Irish Republic's troubled state-run airline, on £21m (£19.8m) of payroll cuts being sought by the company, out of a total of £50m in a cost-cutting rescue plan to bring the airline back from the brink of financial disaster.

The agreement accepts 800 job losses from the airline's 5,500 workforce, and "radical" changes to work practices. The deal has still to be approved by the workforce in a secret ballot of union members, but union officials yesterday acknowledged that they would be unable to get better terms from the company.

A clearly relieved Mr Bernie Cahill, the airline's executive chairman, said: "A few months ago there was no future for the airline. Now there is. I believe the rescue plan will work. I have no doubt about that."

Mr Paul O'Sullivan, the negotiating official for Siptu, the trade union representing the bulk of the Aer Lingus workforce, described the negotiations as the toughest he had ever been through in an industrial relations dispute.

He said it was "heartbreaking" to negotiate away 800 jobs and that "the changes being asked of the workforce are enormous, but are necessary to create an airline capable of



The Boeing 767: Aer Lingus has two of these aircraft - currently idle - on lease from GPA

competing in a deregulated market."

The airline was seeking cuts of 1,280 man-years in labour costs, but received acceptance for only 800 voluntary redundancies. Management then argued that only 300 of these could be released, unless there were major changes in work practices. These have now been conceded by the unions.

Still to be negotiated are £14m cuts in labour costs from the airline's aircraft maintenance subsidiary, Team, and £15m in non-labour overheads.

The company said that more rapid progress was now expected in those areas, with the core agreement now settled with staff in the main airline business.

Two obstacles still lie in the path of finally wrapping up the rescue plan, assuming the secret ballot approves the deal.

First, management and unions have agreed to go to arbitration over pay settlements for the coming year - the airline management says no pay award can be made

next year.

Second, a £175m equity injection promised by the government in the event of £50m of cost savings being achieved, is still dependent upon approval by the EC Commission.

Aer Lingus's rivals on the intensely competitive Dublin-London route are waging a lobbying campaign in Brussels to block approval, arguing that the government support would create unfair competition for their operations. Without the £175m support, yesterday's

deal with the unions will come unravelling.

The airline is currently losing about £1.2m a week and last month reported a pre-tax deficit of £190.7m for the year ending March 31 1993 on turnover of £291.7m.

With net debt of £254m at the last financial year-end, gearing was 533 per cent. In the summer, the airline's bank creditors threatened to shut off lines of credit to the airline unless a viable rescue plan was put in place by the autumn.

## McInerney Properties cuts loss to £1.77m

McInerney Properties, the Dublin-based housebuilder and property developer which has leisure-related construction developments in Spain and Portugal, reduced pre-tax losses to £1.77m (£1.67m) in the first half of 1993. Losses last time were £1.94m.

The result, on turnover of £12.9m (£11.5m), was struck after exceptional provisions of £1783,000 (£2960,000).

The Four Seasons resorts in Portugal and Spain reported a good sales performance but incurred losses. Good progress was being made in Germany.

The company said it would incur a further loss in the second half but hoped to return to profit in 1994.

Losses per share amounted to 1.47p (3.31p).

## Bolton falls to £142,000 after Langho losses

Pre-tax profits at Bolton Group, the property investor, fell from £202,000 to £142,000 in the year ended April 30.

The result was struck after losses relating to the Langho Nursing Centre, which had been disposed of the directors said, as it required a disproportionate amount of management time and would not generate the target return required.

Since the year and the decision has also been taken to dispose of certain investment properties, which will result in a reduction in debt of about £5m.

Turnover was £2.46m (£1.83m). Net interest took more at £1.34m (£1.13m) and earnings per share came to 1.5p (3.21p).

## NEWS IN BRIEF

**BRITANNIA GROUP:** Rights issue taken up as to 8.84m shares (77.8 per cent). Figure includes acceptances in respect of 7.39m new ordinary shares, being the renounced entitlements of certain directors and major shareholders (64.8 per cent), which were placed with institutions and two other directors. The balance will be taken up by sub-underwriters.

**ENVIRONMENTAL:** Has received elections for its enhanced scrip dividend alternative in respect of 455.8m existing ordinary shares, representing 96.3 per cent of its issued ordinary share capital. The cash offer has been accepted in respect of 178m existing ordinary shares, representing 38.5 per cent of elections. The cost of the 1993 special interim will be £2.1m against £45.4m if all shareholders had received the full 8.5p cash dividend. Also, some

£12.8m has been saved in AGT. **HARRIS (PHILIP)** has acquired the Birmingham-based occupational health supplies business of Surgicon Reside Group and Surgicon for £632,000 cash, plus stock and debtors at valuation estimated at £350,000. The business makes operating profits of about £100,000 on sales of £1.3m.

**KELT ENERGY:** As a result of the subscription and open offer Kelt will issue 12.5m new ordinary shares of which CP International Securities will subscribe for 12.1m, representing 14.4 per cent of the company's enlarged share capital. Applications under the open offer were received in respect of 383,154 new ordinary shares. **RUSSELL (ALEXANDER)** has sold its concrete block and concrete block pavior business, Russell Concrete Products, to Marshalls Mono, a subsidiary

of Marshalls, for £2.73m. RCP incurred a pre-tax loss of £452,000 for the year to end-December 1992. The sale was part of Russell's policy of disposing of under-performing assets and reducing borrowings.

**SOUTHERN WATER** has acquired the ERG Environmental Resource Group for £2.25m. The consideration, in part via the issue of 311,868 new ordinary shares, is subject to adjustment. In 1992 ERG achieved a turnover of £7m, of which a third was derived from outside the UK.

**VINTEN GROUP** has completed the sale of the UK electro-optics business of its subsidiary, Vinten Electro-Optics Ltd, to Coherent Optics (Europe), an offshoot of Coherent, the US laser and optics company. Consideration is an estimated £996,000, payable in cash.

## INDEX CONSTITUENTS

LISTS OF the constituent stocks of the FT-SE Actuaries Share Indices series and other FT indices are available at no charge from The Manager, FT Statistics, One Southwark Bridge, London SE1 9HL.

Information regarding the FT-Actuaries World Indices, including details of constituents, is available from:

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## COMMODITIES AND AGRICULTURE

## Xerox breakthrough worries silver market

By Kenneth Gooding, Mining Correspondent

SILVER'S BIGGEST market could be threatened in the long term if Xerox Corporation's claim to have developed a silver-free film process is justified, analysts suggested yesterday.

Worries about the Xerox breakthrough forced silver's price in London down by 15 cents a troy ounce, or 3.4 per cent, to \$33.55, by the close yesterday. The sharp movement unwound the rest of the precious metals market and gold fell to \$382.75, down by \$6.05 an ounce.

Xerox announced its new product, Verdelum, at the weekend. It is aimed solely at the graphic arts market and substitutes for the silver-halide films used to make master plates for high-quality photography used in many magazines and newspapers and commercial printing. Xerox said there seemed to be no way yet for the process to be applied to consumer photography.

However, the US group

claimed that in graphic arts applications its patented technology "surpasses traditional silver-halide in quality and costs and addresses a pressing environmental concern" as Verdelum did not require any toxic processing chemicals.

Graphic arts used about 1,300 tonnes of silver last year, or one-fifth of the 5,800 tonnes used for photography and about 7 per cent of total silver consumption - 18,300 tonnes in 1992 - according to the Silver Institute, a Washington-based promotional organisation.

"This development could give silver a bad image," said Mr Andy Smith, analyst at Union Bank of Switzerland. He suggested Xerox's announcement could have a depressing impact on sentiment in the silver market in the same way as two other relatively recent revelations - news that Ford had developed a non-platinum car catalyst and that some central banks had been selling from their gold hoards - denied other precious metals markets. "These are things that the market said would never happen.

And now some of the conventional wisdom in the silver market is being challenged."

Mr Tony Warwick-Ching of the Commodity Research Unit consultancy group, like Mr Smith, said he spoke without knowing the full details of Xerox's technology or the costs of using it. But if the quality problems usually associated with non-silver film had been overcome, "this could threaten silver in the long term".

Mr Smith said the fall in the silver price towards \$4 an ounce would be a good test of demand in the Middle and Far East where "they take no notice of technological developments". Demand there would probably prevent the price falling much further. Xerox said it would start commercial deliveries of its new product in the second quarter of 1994. Its process uses selenium, produced mainly as a by-product of electrolytic copper refining. About 30 per cent of the 2,000 tonnes of selenium produced each year goes to the electronic and photocopy industries.

## Pakistan's cotton crop may be 15% below target

By Farhan Bokhari in Islamabad

PAKISTAN'S cotton output may be as much as 10 to 15 per cent lower than this year's target of 12m bales because of pest attacks in central Punjab, senior government officials say in their latest assessments.

The new estimates may be a setback to Islamabad's efforts in recovering from last year's large scale damage due to severe floods and a subsequent virus attack. Output fell then to 9m bales from the expected 12m bales.

Mr Zahoor Ahmed, head of Pakistan's leading cotton research station, in Multan, said yesterday: "The cotton crop could be 10m bales".

Recent pest attacks in the Faisalabad division of central Punjab may have damaged as much as 50 per cent of the crop in that area, he added. The final estimates for this year's crop are expected to be made available in the next couple of weeks.

Meanwhile, legislators elected from Pakistan's cotton belt in Southern Punjab are expected to ask the government for special relief if the crop damage is spread over an area which is larger than current estimates.

One member of the newly elected National Assembly - the lower house of parliament - said: "What I have seen out in the fields is certainly no indication of the bumper crop that we hoped to have. It's a sad story of last year's calamity of floods being followed by this year's viral infection."

Stock prices on Pakistan's largest stock market, the Karachi stock exchange, have risen in recent weeks, partly because of expectations of a large cotton crop and so a cheaper raw material, which would be likely to increase the profitability of textile factories.

But with the latest damage assessments, which may raise cotton prices in the local market, it is not yet clear if the forward movement on textile shares will continue.

However, an official of the Pakistan Central Cotton

Kunal Bose reports on the country's proposals for retaining credibility as a supplier and, below, on moves to let coffee growers sell their crop abroad.

## India backs sugar re-export plan

THE INDIAN federal government is favourably disposed to a proposal by the Indian Sugar and General Industry Exim Corporation to import raw sugar for re-export after processing, as white sugar.

The corporation has suggested the export-linked import of 250,000 tonnes of raw sugar during the 1993-94 season. India, which re-exported the sugar export market in 1990-91 after a gap of six years, will not have any exportable surplus in the current season.

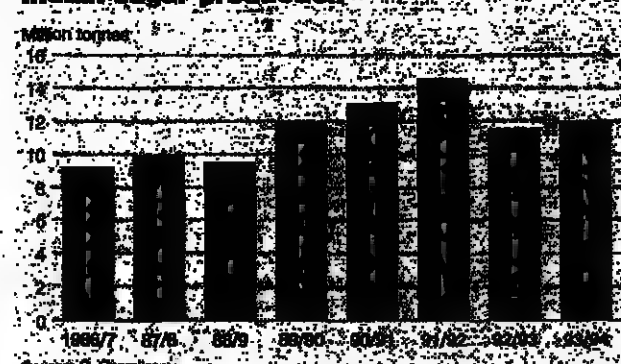
The initial sugar production forecast for 1993-94 is 11m tonnes, compared with actual production of 10.8m tonnes last season and 14.4m tonnes in 1991-92. In spite of last year's serious setback in production, India could export 411,000 tonnes of sugar as the 1992-93 season opened with very comfortable stocks of over 4.9m tonnes. Indian exports in 1991-92 were 552,000 tonnes, up from 233,000 tonnes in 1990-91.

The exim corporation has also recommended the import of another 550,000 tonnes of raw sugar in the current season to be refined for domestic consumption. These imports would be made on condition that the same amount was exported in the following season, when production is expected to improve.

The Indian Sugar Mills Association has warned the government that if India suspends export in the current season the country will lose the "credibility as a dependable source of supply".

"The new on, now off approach to export has not

## Indian sugar production



Source: C. Chandrasekhar

helped us in the past," an ISMA official said recently. "We have made considerable effort to develop a market for Indian sugar in the neighbouring countries. This we do not want to lose."

Moreover, importing raw sugar for processing into white sugar would enable the Indian industry to utilise capacity which would otherwise remain idle.

In the meantime, the mills association has taken strong exception to a government

move to liquidate the buffer stock of 500,000 tonnes of sugar created six months ago. It argues that not only should the buffer be maintained but its size should be expanded when there is an opportunity to ensure regularity of export, irrespective of variations in domestic sugar production.

According to ISMA, Indian sugar production will once again be low as the area under cane has not increased. What it finds most disturbing is that the area under cane in Maharashtra, India's most productive cane growing state, has shrunk, while the condition of the crop in the drought affected Maharashtra is far from satisfactory.

Floods have affected the standing crop in Bihar and a few other places.

Total supply of sugar in the current season, which opened with stocks of 3.2m tonnes, will be 14.2m tonnes at most. As domestic consumption will be more than 12m tonnes, compared with 11.9m tonnes last year, the next sugar season is likely to open with disturbingly low stocks.

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## Oil wavers in run-up to output and demand news

By Robert Gorzine

OIL MARKETS are likely to remain unsettled in the run-up to the release later this week of demand forecasts for consuming countries and publication of official figures on October production levels by members of the Organisation of Petroleum Exporting Countries, analysts said yesterday.

Prices for Brent Blend for December rose to \$16.10 in late London trading yesterday after falling below the psychologically important \$16 a barrel level last Friday.

The weak prices prompted Mr Gholamreza Aghazadeh, the Iranian oil minister, to suggest at the weekend that Opec, which meets in Vienna later this month, might have to re-examine its production ceiling of 24.5m barrels a day in order to stabilise prices.

But Mr Peter Bogin, of Cambridge Energy Research Associates in Paris, said yesterday that "it would be very difficult for Opec to go below" the current ceiling, which was set in September and which is due to run until the end of March next year.

"Everybody is surprised at how weak prices are, but we

just have to assume that there is too much supply for present demand," he said.

International Energy Agency figures on likely oil demand in the main consuming countries are due out at the end of the week.

"If the IEA cuts its demand forecast again then it will reinforce the bearish market," said Mr Bogin.

Other factors behind the recent price weakness include reduced demand from Asia, especially Japan. Asian buyers are normally the first to take advantage of low crude oil prices, but they are "not leading the way" because of the economic slowdown in important economies, said Mr Vahan Zanyan, a director of the Washington DC-based Petroleum Finance Company.

He also pointed to an overhang of crude oil stocks, sharply increased production from the North Sea, the possibility of Iraq's reaching an agreement with the United Nations which would allow it to resume oil exports and some "minimal" Opec output in excess of the production ceiling as additional factors depressing the markets.

Some unofficial estimates

have placed OPEC's October output at more than 24.5m b/d. The Middle East Economic Survey yesterday described such estimates as high, but said they had "severely undermined" market confidence.

Mr Zanyan said Opec may simply have to hope for an early cold spell in the northern hemisphere to prop up prices. "A few weeks of temperatures several degrees below normal in November or early December can have a disproportionate impact on prices."

● The flow of crude oil through the Brent pipeline system in the North Sea has been cut to 60 per cent of capacity due to maintenance on a pump. Reuters reports from London.

A Shell/Expro spokesman said the pump on the Cormorant Alpha platform was taken out of service over the weekend. "Production levels are being maintained using available platform storage," he said. Cormorant Alpha is the hub of the Brent pipeline system through which crude oil from nine other fields passes on its way to the Sullom Voe terminal in the Shetland Islands, where Brent Blend crude is mixed.

## WORLD COMMODITIES PRICES

(cents/tonne)

BULKY HARBOR - LCE

Close Previous High/Low

Mar 10.98 10.98 10.98 10.98

May 10.98 11.02 11.02 10.98

Turnover 88 (81) lots of 60 tonnes

COCOA - LCE

Close Previous High/Low

Dec 930 941 958 933

Mar 944 970 985 930

May 944 970 985 930

Jul 944 970 985 930

Sep 944 970 985 930

Dec 944 970 985 930

Mar 944 970 985 930

May 944 970 985 930

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# CORPORATE TREASURY MANAGEMENT

Tuesday November 2 1993

**Volatility in European currency markets and fear of foreign exchange dealing losses have forced companies to strengthen controls and re-assess their approach to hedging, Tracy Corrigan writes. Institutional investors are also demanding greater disclosure.**

## Purse strings are tightened

WHILE THE advantages of a strong treasury function have become much more widely appreciated by companies in recent years, so too have the potential risks associated with a poorly managed treasury operation.

The loss of £150m in foreign exchange dealings by the treasury department of Allied-Lyons, the UK foods group, in 1991 triggered a wave of concern about internal management procedures. Since then, as well as tightening up controls, many companies have also started to pay more attention to broader policy issues. In particular, the unexpected volatility of European currencies over the past year has forced a number of companies to reassess their approach to hedging.

For example, many UK companies had stopped hedging their exposure to European currencies, because they thought that they were protected by the exchange rate mechanism. When some currencies fell outside the system, they were taken by surprise. "Many boards have been requiring the treasurer to be much more rigorous in deciding the hedging programme," said Mr Derek Ross, a partner at Touche Ross who advises companies on treasury management.

There is a growing tendency to take shorter-term decisions

on currency hedging; for example, hedging two to three months ahead, rather than 18 months, so that if the market turns, the company is not locked in at a disadvantageous rate for a long period.

Company board members are less likely these days to dismiss treasury officials as bureaucrats, and more likely to have an idea of what actually goes on in their company's treasury operation.

The other issue which has brought corporate treasury into the limelight has been a growing chorus of demands by institutional investors for greater disclosure of corporate treasury policies in companies' accounts.

The Association of Corporate Treasurers (ACT), a grouping of UK company treasurers, has produced an exposure draft of guidelines for disclosure. In the current climate, in which companies are being bombarded with new disclosure requirements, some companies are rather unenthusiastic, while others take the view that the guidelines should go further.

Again, currency volatility has highlighted this issue. Analysts or investors looking at, for example, a UK company which has a large US operation could expect that company's results to improve as a result of a stronger dollar. However, if that exposure to dollar earnings



has been hedged, this will not be the case. Analysts would like to know not only whether the exposure is hedged, but also what rate the company has locked in.

Only a few UK companies, including RTZ and Courtaulds, describe their treasury activities, including interest-rate and currency exposure management policies, in any detail.

Among companies themselves, there has been a renewed focus on cash management. "If you can manage \$10m of liquidity better, that is fundamental to the business," points out one treasury adviser. The stronger emphasis on performance management, as well as tough times at many companies, has focused attention on an area that was often ignored in the 1980s.

But the emphasis on internal controls remains strong. The Allied-Lyons loss was incurred by the writing of currency

options, creating huge positions which were concealed from senior management.

In the wake of that loss, the ACT issued a set of guidelines urging tighter internal controls, regular audits and full disclosure of risk management strategies.

However, companies have continued to report losses stemming from treasury operations. Most have been on a much smaller scale, though a few have been substantial.

Most recently, Showa Shell Sekiyu, the Royal Dutch/Shell group's Japanese affiliate, revealed in February that traders in its treasury department had run up some \$1bn in unrealised foreign exchange losses.

A \$6.44bn forward exposure to the dollar at the end of last year was incurred in secret by a group in Showa Shell's treasury, which had erroneously believed the US currency

would rise against the yen. Announcing its first-half results in August, Showa Shell described progress in unravelling the exposure as encouraging, but said there was a "longish tunnel" of two to three years before it would emerge from the episode.

This latest loss points to a particular area of danger for large multi-national companies, which lies in the difficulty in keeping tabs on all areas of business. Most large multi-national companies now have centralised dealing operations, rather than treasury functions attached to each office.

"Generally, there has been quite a big improvement in the amount of attention that top management has given to internal control," said Mr Ross, who is also chairman-elect of ACT. "But for many groups that is primarily exercised in head office. Quite often, prob-

lems arise in some far-flung branch or associated company."

For companies concerned about the efficacy of their internal controls, there are a number of important checks to be implemented, such as making sure that the company's board agrees with policy, that there is complete segregation of duties between dealing, confirmation settlement and reporting functions, and that all transactions are marked to market value. These procedures should also, of course, apply to financial institutions.

For example, Sumitomo Finance International incurred a \$3.3m loss on its interest-rate options book last autumn, after a desk manager had concealed his real trading position from senior management.

The manager of the interest-rate options desk had to record the value of his positions in management reports submitted

to his chief executive, but he gave falsely inflated values in order to hide his true position. He then persuaded an employee with another firm, which he knew was used by Sumitomo's accounts department to check those valuations to quote inflated prices that corresponded with those in his own internal management reports.

"In my experience, there are a lot of banks where a trader, believed to be of exceptional quality, reports direct to the top," said Mr Ross, who advises banks and securities firms in this area. "It's easy to develop a culture which allows the trading-room to develop without controls."

Since the Allied-Lyons losses were reported, there has also been a general move to upgrade computer systems, as technology has advanced and costs have fallen. Sophisticated systems are particularly important in certain areas of risk containment; for example, in marking to market. "But the key features of internal controls are not systems issues," Mr Ross said.

While a collusive fraud may still be hard to detect, controls involving a range of different functions in the trading, settlement and reporting process at least reduce the opportunities for positions to be hidden.

"You can't stop somebody doing an unauthorised trade," admits Mr Ross. "But you can make sure it can be closed out the following day."

While there is still a strong emphasis on keeping controls in place in the treasury department, the emphasis on managing financial risk is also spreading away from the treasury function, according to some management consultants.

Consultants at Coopers & Lybrand point out that many of the notorious losses at companies in recent years stem from inadequate management of financial risks in other areas of the business - production quality failure in the case of Perrier, marketing failure in the case of Hoover, for example.

What these losses have in common, according to Coopers, is that, like Allied-Lyons'

### IN THIS SURVEY

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■ **Commodity risk:** swaps gain in popularity II

■ **Debt management:** lower interest rates bring new problems II

■ **New US rules:** banks may be over-estimating the effect III

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\$150m hit, they were not expected by top management and they could have been avoided by proper financial risk management.

"Financial risk is being redefined," says Mr Howard Lovell, a partner of C&L. "Should companies have a risk management function, over and above the Treasury department?" For example, a finance director could be given the task of managing the risks facing the company in a broader context.

For all the importance of interest-rate management, interest-rate risk is relatively small, compared with other risks to the company which could wipe them out, he argues, adding that some companies have already taken this point on board.

Mr Lovell takes his argument a step further. "Is treasury going to be called treasury in five years time? Or will it be called risk management?"

## The key to minimise risk and maximise return: Tri-Party Repo.

### First tri-party repurchase agreement in Europe

By Tracy Corrigan

THE European Bank for Reconstruction and Development (EBRD) and the Swiss Bank Corporation announced the first tri-party repurchase agreement (repo) programme to be launched in Europe.

Under the agreement, the EBRD lends cash to SBC,

between two counterparties - is estimated at just \$100m. The advent of tri-party agreements could mean its expansion.

Mr Mark Mazzonelli, a director of SBC, said: "The objective of the tri-party programme is to broaden and deepen the multi-currency repo market... by providing easy entry for those institutions, specifically corporations, which were unable to access the market."

Excerpt of an article which appeared in the FINANCIAL TIMES, London, October 1, 1992

No other money market product offers greater security than a bank deposit, more flexibility than commercial paper and still provides a competitive rate of return. The market for Repurchase Agreements (repos), long established in the United States as a preferred investment vehicle of corporate treasurers, insurance companies and central banks, is now available in a wide variety of currencies through Swiss Bank Corporation's Tri-Party Repo service. Tri-Party Repo gives you reward with virtually no risk since your cash investment is collateralised with high grade corporate or sovereign debt issues. In addition, repos may be custom-tailored to fit any maturity from one day to one year or any period in-between with all administrative duties handled by the Tri-Party custodian (Cedel or Euroclear) at no cost to the investor. Swiss Bank Corporation combines a cast-iron reputation for safety with the proven expertise to make repos work for you. To make the most of your cash, please call Christine Brown-Quinn or Mark Mazzonelli in London on (44) 71 - 711 2801.

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## CORPORATE TREASURY MANAGEMENT II

Antonia Sharpe examines foreign exchange risk

## ERM upset causes new anxieties

MOST COMPANIES think nothing of paying large premiums year after year to insure their factories or offices even if, so far, they have never burnt to the ground.

Yet many are only just coming round to the idea of paying similar amounts to protect their earnings against events beyond their control, such as volatility in the foreign exchange markets.

European companies were starting to think that currency fluctuations were a thing of the past while the European exchange rate mechanism (ERM) was performing in line with their expectations.

However, the exit of sterling and the lira from the ERM in September 1992 and the virtual collapse of the system in August this year, when some currency bands were widened to 15 per cent, has sent many corporate treasurers back to the drawing board.

"Companies are now worrying more about foreign exchange risk than before the collapse of the ERM," says Mr Albert Maasland, the European head of foreign exchange sales and marketing at Chase Investment Bank in London.

While the ERM was running under its old format, companies were content to use the D-Mark as their main hedging currency against the other leading global trading currencies, since the German currency was effectively the proxy for all the other European currencies.

But after the ERM bands widened, this was no longer the case and companies could not take it for granted that the ERM would provide them with adequate protection. Consequently, they are having to hedge themselves against a far bigger number of currencies.

This has led to a big increase in the trading volume between the leading world currencies and the less active European currencies. For example, trading in the yen against the Belgian franc has increased substantially in the last few

months. The improved volume is actually working in favour of companies, because the greater liquidity in such currency crosses has improved pricing and the execution of larger transactions.

In addition, now that the ERM no longer provides blanket protection against a wide range of currencies, banks have developed various derivative products which are designed to do just that.

Bankers report that volume in derivative products has increased dramatically, because corporate treasurers agree that it is probably more

actively in the emerging markets, especially in Asia. Bankers say there is active two-way business in this area, because companies in the emerging markets are also keen to use derivatives to hedge themselves.

Even companies that only do business in their domestic market are increasingly exposed to fluctuations in the foreign exchange market following the collapse of the ERM.

UK companies were among the first to become aware of the indirect danger to their earnings, shortly after sterling started to fall against other European currencies.

**Now that the ERM no longer provides blanket protection against a wide range of currencies, banks have developed derivative products**

dangerous to do nothing about a currency exposure than to devise appropriate hedging strategies.

In addition, there is a consensus that the heavy currency-related losses suffered by Allied-Lyons, Shell and Adam and Co, the private bank since taken over by Royal Bank of Scotland, highlighted the inadequate controls at those companies and not that the hedging instruments were at fault.

These derivative products, which tend to be traded more actively over the counter than on the exchanges, can be tailor-made to each company's individual needs. Their main attraction is that they offer companies a cheaper and more efficient way to hedge themselves against several currencies.

One product which is becoming increasingly popular is the "basket" option, which has been used for many years in the equity markets. It has since been developed to provide a lower-cost hedge for multiple currency exposures against one or more "base" currencies.

Such products are also being used by European companies which are trading more

Although sterling's depreciation was seen as a godsend for the country's exporters, it has created a series of problems for companies in the domestic sector.

Mr Les Halpin, managing director of Record Treasury Management, a UK company which advises corporate clients on how to manage currency risk, gives the example of confectionery manufacturers who are having to pay far more for their raw material, sugar.

The intervention price of sugar in the European Community is denominated in the European currency unit (Ecu). Sterling's fall against the Ecu, combined with changes in the EC's agro-monetary regime, resulted in UK confectionery manufacturers having to pay more for their sugar.

However, they were unable to pass on their higher raw material costs to their customers, because of the pricing war among the various supermarkets. Their profit margins suffered as a result.

"These companies suddenly woke up to the fact that they faced foreign exchange risks even though they were totally focused on the UK domestic

market," says Mr Halpin.

One solution offered to a company in this situation was to undertake a series of foreign exchange deals, whereby it would be short of sterling when the currency was going down and be in a neutral position when sterling was going up.

"By using straightforward financial instruments these companies can create a suitable risk profile," says Mr Halpin.

Some manufacturing companies that export their products neutralise any competitive disadvantages resulting from foreign exchange fluctuations by buying parts for their products in the countries of their principal rivals.

For example, a UK car company is known to buy German gear boxes, one of the most expensive components in a car, so that it can compete on a more equal footing with German car companies both at home and in the export market.

Companies which have been doing business in many countries for decades have not been greatly affected by the turmoil in the ERM, because they have been structured in such a way as to minimise the impact of foreign-exchange movements on their earnings.

For example, BAT Industries, the Anglo-American tobacco and insurance group, has decentralised its operations, to enable most currency transactions to be handled locally.

"BAT tends to be fairly large in the local economies, so we have the ability to take quality decisions locally," says Mr Richard Desmond, the group's corporate treasurer. "As a result, our exposures are not great."

However, BAT also has a centralised "netting" process, so that its foreign subsidiaries can set off any currency exposures which they might have against one another. "We have an information system which lets us know exactly what the general exposures are in the group," says Mr Desmond.

BAT's non-remitted profits are not hedged, since they are kept by the local companies to build up their asset base. However, cashflows to the centre are managed actively by BAT's in-house treasury team of five professionals. BAT uses an average rate to translate foreign exchange earnings, but also uses options strategies to help reduce risk.

Robert Alldis discusses new approaches to commodity risk

## Swaps gain popularity with users and producers

COMMODITY SWAPS have been with us for nearly 20 years. But until three years ago, few raw material consumers or producers were actively using swaps to hedge their exposure to changes in commodity prices.

Today, the interest in commodity swaps is rapidly gaining momentum, but there is still some way to go before this interest is turned into widespread use.

The total value of deals done is still small. The International Swaps and Derivatives Association (Isda), in its first analysis of commodity swaps, reckons they were worth, at the end of 1992, in notional principal terms of those outstanding, \$18bn - and of those, only \$3bn were non-energy swaps.

But the market for total interest-rate swaps in the same period was far larger - valued at \$3,850bn, with currency swaps worth \$860bn. Still, having come from nothing a few years ago, the growth in use of commodity swaps is significant: they are a useful cost-effective and tailor-made vehicle, for users and producers of raw materials to manage their exposure to price risk of an individual commodity.

In the swap, the commodity consumer normally pays fixed and the producer floats, protecting the latter from any drop in the commodity's price. Usually, only payment streams are exchanged, rather than physical delivery taking place. And as the swap is tailored to the particular commodities

being used/produced, the basis risk of using an imperfect substitute, say for jet fuel, when hedging in the futures market, is eliminated. But this still does not answer the main reason why the rise in the total value of the commodity swap market has happened now.

Price factor: Base metal prices have hit six-year lows in recent months; this has put a limit on downside risk. The cash price for copper currently trades at around \$1,675 a tonne, near its six-year low when it touched \$1,571. And nickel is also at levels not seen since June 1987, when it traded at \$4,451 a tonne (currently,

want to capture contango to lock in at current price levels. Understanding: Corporate treasurers are becoming increasingly familiar with the use of derivatives to manage their interest rate and currency exposures. A survey by Greenwich Associates, a Boston-based business strategy consultancy, found that 52 per cent of European and Middle Eastern institutions in early 1993 were hedging their currency exposure by using forwards of less than one year, and that 39 per cent used non-dollar interest rate futures or exchange-traded options. And, says Mr Per Sekse, vice-president

responsible for commodity derivatives marketing in Europe for Chemical Bank, London, corporate treasurers seem increasingly willing to deal over-the-counter with the investment banks, rather than run their own hedging operations.

The banks can also offer a wide range of tailor-made services and structures, says Keith Murphy, vice-president and head of commodity derivatives at J.P. Morgan, London. "They are looking at very customised products, such as indices or baskets of commodities of the very specific exposures that they have."

The more exotic commodity swaps have tended to be used by heavy energy users to hedge their fuel costs

**The more exotic commodity swaps have tended to be used by heavy energy users to hedge their fuel costs**

nickel is trading around \$4,875 a tonne).

With base metal prices so depressed, there is a fair chance that their next move will be up. "If I were a consumer, I would fix prices now as prices are so low. But if something happens, these prices would go higher quicker than you know it - that's why we're seeing such a lot of activity," says Robert Miller, vice-president of commodity risk management at Chase Manhattan Bank in London. And since commodity prices have a habit of being highly volatile (acutely felt during the Gulf war), it is good time for raw material consumers who

swaps have tended to be used by heavy energy users to hedge their fuel costs. Ed Speal, head of commodity transactions at Banque Paribas in New York, says he has done swaps on specific pipelines for natural gas and different grades of fuel oil. Also, by embedding options into the swap, he has been able to make an even more attractive and flexible product. But for widespread use of the complex vehicles for all raw materials, a senior US investment banker says: "The derivatives industry will get there, embedding four or five different risks into the one vehicle. Within the next year or two you will see the 'multi-risk swap'."

But the derivatives business has never been short on innovation. For most corporates, however, the plain vanilla structures remain the rule of thumb. And the majority of commodity swap vehicles tend to be settled against the monthly average price of the raw material. These Asian (or average-rate) products are particularly well suited to commodities.

Continued on facing page

## Debt management

## Lower rates bring new problems

UK COMPANIES breathed a huge sigh of relief when interest rates started to come down late last year, but at the time only a few believed that rates would fall as far as they did.

One of the main advantages of a low interest rate environment is that companies have been able to make substantial savings by refinancing old, high-coupon debt with cheaper debt.

Investor demand for long-dated paper has also enabled companies to extend the maturity of their debt profiles. By issuing long-dated bonds and redeeming short-dated debt, many companies have achieved an average life for their debt of more than five years at the lowest interest rates in 30 years.

At the same time, the lack of supply of corporate debt, especially in the UK bond market where demand has been great, has resulted in a dramatic tightening in the spread on such paper, that is, the premium which issuers have to pay above the yield on government bonds.

Many companies have also shifted the balance of their fixed-rate and floating-rate debt in favour of floating-rate debt, in order to make the most of further falls in interest rates.

Although the benefits to companies of lower interest rates cannot be underestimated, the sheer pace of the fall in rates has created a new series of problems for company treasurers to solve.

Companies which find themselves in the most difficult position are those with a high proportion of their debt fixed at a rate well above the current interest rate.

Since they are having to pay more than the market rate to service their debt, this places them at a competitive disadvantage to their rivals who have a far greater proportion of their debt with a floating or market rate. Each time rates fall, the competitive disadvantage becomes greater.

"It hurts to admit that you are paying well above the going interest rate for your debt," says a banker at a leading investment bank.

As a result, banks are noticing a rise in demand from companies for derivative products that enable them to cut the cost of servicing their fixed-rate debt, says Mr Paul Ward, director in the fixed-income department at Salomon Brothers in London.

The derivative product designed to help companies in this situation is called an "interest-rate swap". Using this structure, the company enters an agreement with a counterparty, usually the derivatives unit of an investment bank, to swap the fixed rate on its debt for a floating rate.

It is likely that the company will end up having to pay a substantial margin above the London interbank offered rate (Libor), because of current market conditions.

However, it will reap the benefit of the swap when Libor falls, because its interest costs will decline accordingly. Had the company decided to stay with fixed-rate debt, its borrowing costs would have remained the same.

Falling interest rates also harm companies which relied on the interest income generated by their cash mountains during the period of high interest rates.

"Corporates do not usually buy protection against falling interest rates," says Mr Marco Ferrazzi, senior vice-president at Chase Manhattan Bank in London.

One solution for a company in this situation would be to enter a swap which allows it to end up receiving a fixed rate

on its cash mountain. In return it pays a floating rate to the counterparty. This is effectively the reverse of the swap taken out by company looking for a solution to its fixed-rate debt problem.

Mr Ferrazzi says that another way that a company can insure itself against falling interest rates is to buy a "floor" or a minimum interest rate, which it will continue to receive on its cash even if rates go below the level specified by the floor.

Alternatively, the company can sell a "cap" or a maximum interest rate against its cash, whereby it gives up any potential returns above the cap, in return for a fee.

Companies also use swaps as an efficient way to adjust the fixed-rate/floating-rate split of their debt portfolio depending on the trend in interest rates.

Mr Arthur Burgess, group treasurer at British Gas, says that British Gas aims to have

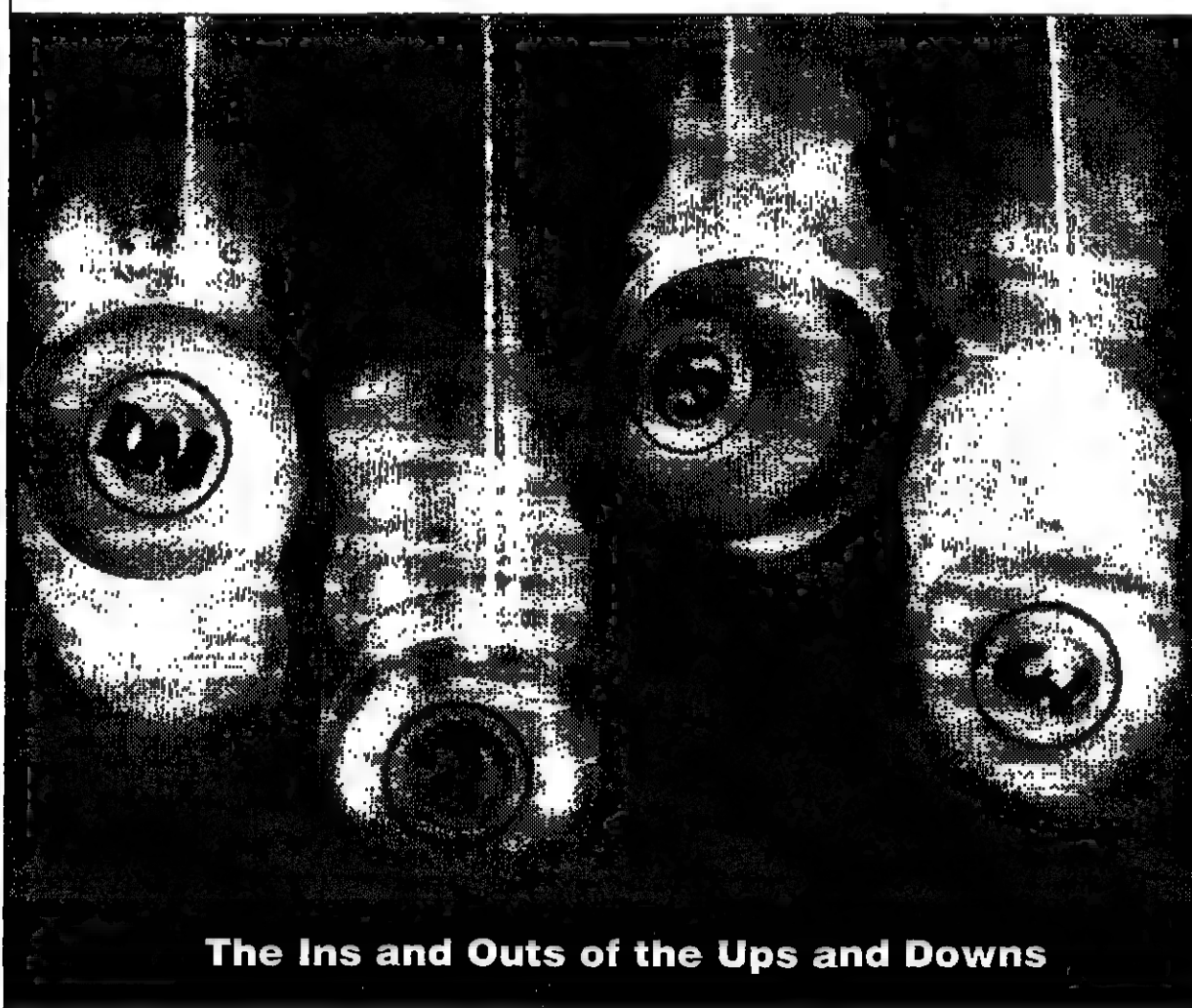
three-quarters of its debt in fixed rate and one-quarter in floating rate, but that the split can vary to half-and-half depending on the company's view on interest rates. "We use the swaps market to switch from fixed to floating," he says.

Derivatives are becoming an increasingly important part of a company's strategy to manage debt. Indeed, a recent court decision in the US has potentially opened the door for directors to be sued for failing to use derivatives to protect their companies against volatility in the financial markets.

The Indiana court of appeals (Strane v Roth) held that the directors of an agricultural co-operative had been negligent in not considering the possibility of hedging their company's grain holdings by using the futures market.

Antonia Sharpe

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APT 10/93



## CORPORATE TREASURY MANAGEMENT III

## Commodity swaps

Continued from facing page

ticular day." Average priced swaps account for virtually all the energy swaps Mr Miller does, and around 75 per cent of metal swaps.

■ **Depth and maturity:** As the number of banks involved and the amounts of swaps outstanding increase, liquidity in commodity swaps has risen and generally spreads have narrowed. And with higher liquidity in the market, longer-dated vehicles are now being seen.

"Commodity hedges on the exchanges a couple of years ago were only going out three to six months forward. Now, in the OTC market, hedges are extending one, two and three years forward and beyond, which has had a fundamental impact on the forward curve," says Mr Murphy, at J.P. Morgan.

A strong and active domestic futures market is also important for the banks to lay off their own counterparty risk. "A liquid futures market is not essential to structure a commodity hedge. But if we move away from products that don't have a good underlying futures market, then we get into basis risk, and our prices have to reflect this," says Mr Selke, at Chemical Bank. And if there are options on the future, he/she can buy and sell volatility and do higher own delta hedging without fear of getting squeezed. But even though commodity swaps can provide a relatively cost-effective and flexible method to hedge raw material prices, some corporates are still wary.

For example, Mr Selke advised photographic film manufacturers on the benefits of hedging the silver price when prices were low. But as soon as prices picked up, they quickly saw the new levels as unsustainable and backed-off the hedge, expecting the next move in prices to be down.

Mr Selke had more success with frozen orange juice swaps used by fruit juice processing companies. The juice processors locked in at a rate of just under \$1.00 a lb earlier this year, against a price now of around \$1.30 a lb. But some of the manufacturers wanted to take profits, despite having hedged for 1994, believing again the higher price wouldn't be sustained.

A NEW accounting rule that comes into effect in January in the US will require banks and corporate treasurers to take a closer look at securities held in portfolio, and account for them according to the institution's long-term investment intentions.

The rule is expected to shift a large number of debt securities out of the historical amortised cost basis accounting into market value. Many capital-sensitive companies, particularly banks, are already shuffling portfolios in response to the rule, trading off potentially volatile long-dated debt in favour of short-dated securities.

The concern over bond price volatility is considerable, since the Federal Reserve Board in August grudgingly decided to follow up on the accounting rule, known as Federal Accounting Standards Board statement 115, by requiring banks to adjust their equity capital to reflect unrealised gains or losses for securities they hold for sale.

FASB 115 establishes three classes of debt securities. Securities that are to be held to maturity can continue to be reported at amortised cost. However, if the institution believes the security might be

sold under some circumstances - say, to create liquidity to meet seasonal loan demand - the security must be classified as "available for sale," and be valued at the market on a quarterly basis, with unrealised gains and losses affecting the institution's equity position.

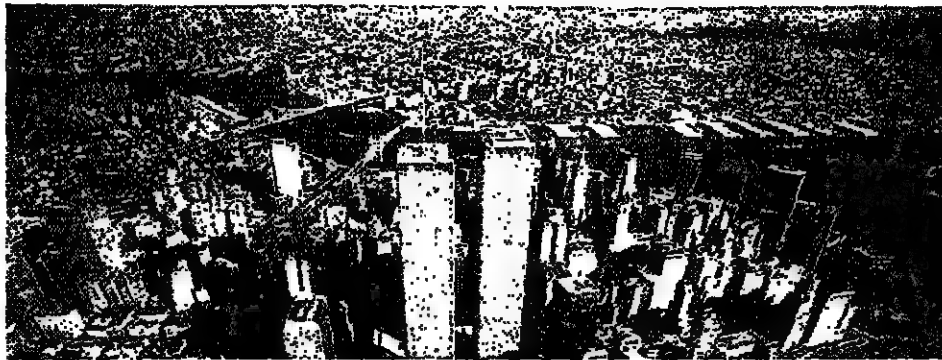
Securities held for trading purposes, the third category, are reported at market, with unrealised gains and losses going straight to the income statement.

Bankers say that many securities traditionally considered as held to maturity will shift to the "available for sale" category, because the rule discourages the sale of a security classified as held for maturity. The rule says transfers between classifications must be rare and unusual, and any transfers must be accounted for as a sale and repurchase at market.

In addition, because FASB 115 is asymmetrical, and deals only with the asset side of an

New US rules will shake up securities accounting, reports Laurie Morse

## Banks may be over-estimating the effect



But what happens when lofty markets come down to earth?

Olyn Geron

institution's balance sheet, a security must be classified as "available for sale" if its price risk is hedged, or if it might be sold to implement an asset-liability management strategy.

A sizeable amount of long-term debt that had been safely amortised under the investment category will soon be subject to the whims of the market, which bank managers say will have near-term and

intermediate effects on capital.

The current environment of low interest rates and rapidly appreciating stocks in the US should benefit a bank's capital position when the initial market valuation occurs. "Almost anyone who's holding a long bond has a profit in it these days," notes one institutional money manager. As a result, few companies are expected to experience immediate equity

mark-downs.

However, the lofty levels of both the US bond and stock markets makes these profitable investments highly vulnerable to a market reversal, and introduces the very real risk of capital volatility.

Bankers fear that depositors and regulators who use capital as a measure of a bank's soundness will misinterpret market-based capital swings. In fact,

even the Fed believes that the rules will force banks to manage their portfolios to avoid dramatic capital shifts, at the expense of profitability or managing interest rate risk.

The belief is well-founded. Bankers, when given the choice, invariably choose capital preservation over higher portfolio returns. A secondary concern for US banks is that a variety of regulatory actions, including the price of bank deposit insurance, is linked to an institution's capitalisation level.

"We're concerned that, by forcing capital to rise and fall, FASB's action could trigger a variety of unnecessary penalties and unwelcome business decisions," said Mr Donald Ogilvie, executive vice-president of the American Bankers Association.

In fact, the bank lobby could be overestimating the effects of the new accounting rule. Many of the smallest US banks continue to act as traditional bankers - making money by lending

deposits at higher rates than they pay depositors. If lending is the primary business, a bank's securities portfolio can rightly be classed as investment, and held to maturity, and avoid market valuation.

The nation's largest banks will also be prepared for the rule, with many intending to use derivatives to manage market risks and to adjust the maturities in their "held for sale" securities.

However, many managers are shortening debt maturities. Securities with maturities of four years or less can be put in the "held to maturity" category with more confidence than a 30-year bond. In the "available for sale" bucket, a short-dated note is less exposed to a capital shock than a long bond.

One unexpected result of the accounting rule may be to shut traditionally long-term municipal borrowers off from their usual investors, and prevent communities from locking in historically low long-term interest rates.

In communities where local banks are active buyers of municipal debt, the effect of these portfolio shifts could be to force municipalities to issue short-term debt to finance long-term projects.

Simon London explains how liquidity is monitored to ensure cash flow is in good health

## In pursuit of yield as recession ends

spent \$350m buying-back its own shares.

Reuters' approach also demands close involvement of tax planning in investment decisions. "We are always trying to maximise the after-tax returns to shareholders. Investors measure us in terms of earnings per share, and that is how we judge ourselves," commented Mr Wood.

But good housekeeping and careful planning can only work so far. The search for higher yield almost inevitably involves a greater degree of risk. As many local authorities found out to their cost, deposits placed with the Bank of Credit and Commerce International offered higher returns than those placed with clearing banks for a reason. In the light of the BCCI collapse, many companies have tightened controls and do not place deposits with banks below a certain credit quality.

For Reuters, the threshold is normally set at a credit rating of single-A from one of the big rating agencies. This applies to swaps contracts and exposures other than deposits. Different types of exposure to each institution are added to give an aggregate exposure.

But credit ratings are not the only guide. Many company treasurers have been wary of buying mortgage-backed securities following the financial problems faced by National Home Loans, a prominent issuer. In fact, the credit quality of asset-backed bonds originated by NHL and others remained reassuringly stable through such problems. But prices fell as investors edged away from the market.

It is partly a question of self-protection. It is easier to go to the main board to justify buying plain-vanilla government bonds. None of them are likely to understand mortgage-

backed bonds, and most will react with suspicion," commented the treasurer of one large company.

Another way of chasing additional yield when short-term interest rates are low is to move into longer-maturity instruments. The 100-year bonds issued in the US by companies such as Coca-Cola are the most extreme examples, offering a yield comfortably above the benchmark 30-year US treasury bond.

The danger is that very long-dated instruments tend to be more sensitive to changes in interest rates and expectations of inflation than shorter maturity stocks. Credit risks may be no greater than short-dated paper, but the market risks can be difficult to manage.

The same might be said of investment in foreign currency instruments. Some UK companies prefer to keep cash in ster-

ling - the currency in which shareholders funds are denominated and earnings per share is measured. Others invest in currencies which are a broad match for their spread of underlying business, or which help offset exposures to help smooth earnings per share.

Derivative financial instruments are used to help offset interest-rate or foreign-currency risks. The philosophical view of companies which prefer sterling-only investment, though, is that the cost of hedging eats into additional yield gained from the underlying investment.

Reuters invests mainly in sterling instruments. It aims for a compromise on interest-rate exposures by identifying a core cash position which is likely to be maintained for at least three years and locking into interest rates of around this maturity. Not all of this core cash posi-

tion is held in instruments of three years maturity, but interest-rate swaps are used to lock into rates of around three years. Cash outside the core is likely to fluctuate - with acquisitions, or other corporate needs - and is treated separately.

Companies point out that neither short-term nor long-term interest rates are especially low in real terms, when measured against inflation. A real return on bank deposits of around 4 per cent represents a reasonable real yield by historic standards.

Even so, low nominal interest rates make it difficult for companies to justify holding cash which is unlikely to be channelled into productive investment. Most industrial companies demand a nominal return of at least 15 per cent from investment in new plant and

machinery. Ronnie Hampel, ICI's chief executive, has said that an average return of 20 per cent through the economic cycle will be demanded of new investment in the chemicals business. Set against such stiff targets, holding excess cash can act as a drag on a company's rate of return on capital.

Reuters' decision to implement a share buy-back programme is a symptom of such pressure. Glaxo's decision to pay a higher than expected dividend this year also reflected the growth of its cash pile - from £1.3bn to £1.8bn, despite spending £350m on research and development - and pressure from investment institutions to stem the rising tide.

But Glaxo has no immediate plans to return the bulk of its cash to shareholders. Cash-rich companies, such as GEC, equally show little enthusiasm for making a one-off payment. Like other companies which face an uncertain trading environment, Glaxo argues that cash gives it the flexibility to react to a changing market. On that view, cash always has value above and beyond the yield it is currently earning.

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## CORPORATE TREASURY MANAGEMENT IV

Jonathan S. Schwarz discusses tax regimes' imperfections

## Following at snail's pace

**T**AX LAWS follow several steps behind business innovation. While financial institutions have developed and marketed sophisticated and inventive financial instruments, tax systems have adapted at a snail's pace.

Comprehensive tax regimes for foreign exchange gains and losses and financial instruments designed to manage currency and interest rate risks are still in their infancy. As a result, tax authorities and payers alike struggle to adapt existing tax rules to these transactions.

Not only are results obtained unsatisfactory, but the tax consequences of legitimate transactions are often uncertain. On the other hand, tax authorities are uneasy because of potential revenue losses arising out of the use of increasingly sophisticated and complex instruments.

The US has shown the way with tax legislation specifically on foreign currency transactions. The US Tax Reform Act of 1986 and subsequent amendments codified numerous aspects of foreign currency transactions. Regulations are used to clarify certain aspects of the taxation of a number of financial risk-management instruments, such as notional principal contracts including many hedging instruments.

Although London is one of the three key international financial centres, it is only in 1993 that

UK legislation codifying the taxation of financial risk management transactions has appeared. There has thus been pressure on multinational corporate groups to move profitable treasury functions to tax-favoured locations such as the Dublin Docks or Belgian coordination centres.

In the UK, tax on foreign-currency gains and losses has until now been taxed under general principles. The traditional distinction between income and capital has caused numerous difficulties in this area. Revenue receipt or expenses are included in computing taxable income, while capital gains or losses on capital assets are determined separately.

Capital gains and losses are not recognised generally for tax purposes until realised. In addition, gains and losses arising in respect of capital liabilities are outside the tax system. Transactions that fit together commercially may be awkwardly asymmetrical once tax has been taken into account.

Difficulties in relation to currency gains and losses have long been recognised. In 1989, the Inland Revenue issued a consultative document on the tax treatment of foreign exchange gains and losses. It proposed symmetry in taxing exchange gains and losses on the same basis with respect to timing methods and amounts. It tentatively proposed the abolition of

the distinction between capital and income in respect of foreign-exchange, gains and losses arising in the course of trade.

In March 1991, the Inland Revenue issued a further consultative document on the reform of the tax treatment of currency gains and losses. This formed the basis for measures included in the 1993 Finance Act.

The new law deals primarily with gains and losses on monetary assets and liabilities. Generally, qualifying assets and liabilities are those debts not convertible into equity, contracts to acquire foreign currency and foreign currency contracts. The rules which are contained in more than 50 sections and four schedules to the Act provide that exchange differences on monetary items are to be included in taxable profits on a translation basis. They will fall outside the capital gains regime.

Currency contracts are subject to tax as if the currencies were acquired when the contract is entered into. Fluctuations over the life of the agreement in relation to sterling are taxable or deductible.

Complex transitional rules determine the applicability of the new regime. Given the fact that a number of areas are still to be clarified by regulation and the necessary overlap between these rules and the rules relating to financial instruments, it will be some time before its impact can be fully assessed.

There are few provisions under current UK tax law specifically dealing with financial instruments. The rules have been unco-ordinated and unbalanced. Corporate users of financial instruments are faced with different rules for traded futures and options, as opposed to other futures and options for example. Similarly, swaps with UK banks or swap traders are treated differently from any other swaps.

In 1989, the Inland Revenue issued a consultative document on the taxation of financial instruments for managing interest rate risks. The document focused specifically on swaps. Then, current practice tended to discriminate against non-bank entities in the UK swap market. Under the proposals, recurring swap fees would be assimilated to interest. Because swap pay-

ments were assimilated to interest, other rules would apply such as thin capitalisation rules and treaty provisions dealing with interest.

A further consultative document was issued by the Inland Revenue on financial instruments in 1991. The government objectives were to recommend how payments and receipts should be characterised for tax purposes, to include as many instruments as possible that are commonly used for managing interest-rate risk, and to provide rules for the timing of recognition of payments and receipts for tax purposes that are consistent with ordinary commercial accounting. Specific anti-avoidance measures to protect the Exchange were proposed. These proposals are broadly enacted in new draft clauses, released on August 20 this year, and are expected to be included in the next Finance Bill. The draft clauses are designed to dovetail with the new currency regime. It therefore applies to companies, but excludes several entities based as companies, such as unit trusts and offshore funds. Special rules are provided

for special taxpayers such as insurance and mutual trading companies.

Taxation may be on a "mark to market" basis. This taxes payments and receipts in each accounting period and changes in the value of the underlying instrument over its life. Alternatively, an accrual basis method may be adopted.

Payments and receipts under all swaps and financial hedging instruments are to be treated as income, and therefore deductible and taxable accordingly.

Most instruments primarily used for currency and interest-rate risk management are covered. They include swaps and other instruments involving periodic payments which are either fixed or determined by reference to the application of an interest rate to a notional principal amount. These include interest-rate caps, collars and floors. There must be at least one receipt or payment determined by a variable interest rate. Single period instruments are also included. These include forward rate agreements, interest-rate futures and options, as well as currency futures and

options. Clearly, the Inland Revenue is suspicious that sophisticated financial instruments may be used to confer unintended tax benefits. As a result, several anti-avoidance provisions are included.

Withholding tax will apply to payments made by UK resident companies to parties in tax haven countries or in territories where there is no interest article in an applicable tax treaty.

It is ironic that, while the tax rules relating to instruments for the management of interest-rate risks have moved towards an accrual based system, the rules relating to the taxation of interest have not. The UK continues to apply the old-fashioned cash basis.

A number of key international issues remain unresolved. Although the UK has opted to treat payments on qualifying financial instruments as interest, it is unclear whether such payments will always be interest for tax treaty purposes. There is a strong body of opinion that the definition of interest for treaty purposes must follow the definitions in specific treaties. Payments under swaps, for example, are often classified as "other income," which commonly escapes taxation under many tax treaties. In some circumstances, they may also be

regarded as "business profits," which escape taxation in the absence of a permanent establishment. This will be of particular importance in relation to those treaties where withholding tax on interest is not strictly eliminated.

In the European Community, the Commission is arguing that the Parent Subsidiary directive be extended to interest payments. The directive eliminates withholding tax on dividends from companies at least 25 per cent owned by a parent in another member state. This would be a step forward, but would only solve the problem for related party transactions. A single market in financial instruments will not emerge in the EC until withholding tax barriers have been eliminated.

The risks of double taxation, or indeed double non-taxation, as a result of inconsistent categorisation of financial instruments, traps and opportunities arising from differences in timing of recognition of income and deduction and withholding tax problems continue. Transfer pricing will continue to be a crucial issue where centralised treasury functions are carried out for group companies in multiple jurisdictions.

Jonathan S. Schwarz is editor of the *Financial Times World Tax Report* and a partner at Pinner & Co. City solicitors.

Peter Carty on banks' management of balance-sheet risk

## Alcos provide an 'engine-room'

**B**ALANCE SHEET risk is now commonly managed by banks and building societies through central committees. Though sometimes known as risk committees, or balance sheet management committees, the popular label is "the asset and management liability committee" - or Alco.

Members represent each part of the balance sheet. The committee will often include the treasurer, the heads of lending and fund acquisition departments, the head of corporate planning and managers from international divisions.

The main function is to maximise earnings through overall management of acquisition and allocation of funds. Strategy is laid down through monitoring asset and liability distributions and maturities, earnings margins and appraisal of liability and loan pricing policies across a bank's portfolio of businesses.

Alcos originated in the 1980s in the US. Growth in financial markets was accompanied by an increase in the range and com-

plexity of financial products available. Risks consequently increased and new ways of taking and avoiding risk mushroomed. Banks realised that top-level management was required, hence the genesis of the Alco.

The committee's remit typically extends to the setting of high-level limits, with board approval, in the key areas of interest-rate risk, currency risk, liquidity risk, equity price risk and settlement risk. In some banks country and industry, portfolio risk is also managed by the committee.

Royal Bank of Scotland set up its Alco last year. "We recognised as a bank that we needed an engine-room to effectively manage the risk that was arising across the bank's business strategies," says Mr Peter Hanlon, head of group asset and liability management. "It was to make sure that everybody put their group hats on, so to speak, rather than their divisional hats." Up to then, the bank had a decentralised approach to risk

management. As well as ensuring that divisional strategies result in a balance sheet that the group is comfortable with, RBS's Alco also acts as a communication conduit, educating different parts of the group on market and credit risk. The committee meets monthly and deals with high-level decisions. "It's not concerned with housekeeping," says Mr Hanlon.

Price Waterhouse partner, Mr Andrew Stott, is involved in setting up and advising on the running of asset and liability management units and the committees they report to. He estimates that three quarters of British banks and building societies now have an Alco, but doesn't think that this means asset and liability risks are necessarily being properly dealt with. "Just having an Alco doesn't mean that you're effective in managing your balance sheet," he warns.

A particular problem is undue influence of one part of a bank over the Alco. Ideally, the committee should be chaired by the chief executive, but this may not happen in practice. In particular, in smaller banks and building societies asset and liability risk management may be run from the treasury, due to the fact that the expertise required to analyse structural risk is often far more developed in treasury than other areas.

First Consulting recently conducted a survey of the operations of Alcos in 19 British banks and building societies. "There are people who say they

are an Alco - they say they are looking at the whole balance sheet - but actually their conversations in their monthly meetings are predominantly about treasury issues," says First Consulting's Magnus Spence.

Treasuries are commonly geared to short-term structural risk, while the Alco needs to assess risk against a bank's long-term goals. "There could be conflicting risk strategies," says Mr Stott, at Price Waterhouse.

He points out that clashes need not arise if the two functions are clearly separated within a treasury with clear individual objectives, but that this is easier to ensure if personnel are within different divisions.

A key issue for RBS's Alco is liability sourcing. For all banks,

low interest rates have produced outflows from customer accounts. RBS has a policy of moving towards more stable retail deposits, and the Alco aims to provide incentives for the process and speed it up.

The TSB has been running its Alco - known by the less catchy title of "group balance sheet management committee" - for around five years in its current form, and has devised strategies for tackling the same problem.

"You're looking to put on basically more fixed mortgages and more personal loans," explains Mr John Ashenhurst, director of TSB's group balance sheet management unit and secretary of the UK Asset and Liability Association.

One approach is to vary price sensitivity from account to

account, and for interest-rate tiers within accounts. "The old way was that you said that everything was either sensitive or insensitive. What we're saying is that it might be sensitive today, but it may not be tomorrow," says Mr Ashenhurst.

Changes in rates alter structural risk and policy. "If interest rates go up, you will probably have to replace the liabilities so that they won't be exposed," says Mr Ashenhurst. "It's timing and getting it right that is the main issue."

As well as increased marketing of fixed-rate mortgages and personal loans, TSB is hedging the exposure from low-interest rate tiers in customers' accounts by investments in gilts and swaps. Moves by deposits into equities inevitably means that banks are looking to the interbank market for funds. This changes the balance sheet's risk profile, notably for liquidity risk, and presents Alcos with another set of policy decisions.

A battery of instruments are available to banks for redistribution of risk. "Depending on their expectations, they could use interest rate derivatives, for example," explains Andrew Stott.

A key function of the Alco is the co-ordination of competing demands by a bank's different operating units for a share of the balance sheet. Return on capital, adjusted for the various kinds of risk, is a fundamental performance indicator. "You invest your capital in the highest performing business units," explains Peter Hanlon. "It's an incremental approach based on bidding and competing."

An important back-up to the Alco is the data provided by a balance sheet simulation model. The effects of different capital allocation strategies and of the use of new products can be predicted. Developed in the US, they have been widely purchased by UK banks and building societies. "It gives you a dynamic dimension to your balance sheet," says Mr Hanlon.

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## AMERICANS

## BUSINESS SERVICES

## ELECTRICALS - Cont

**ENGINEERING GENERAL - Cont.**\* **NOTES & LEARNING - Cont.****INVESTMENT TRUSTS - Cont.**

## CANADIANS

## CHEMICALS

Southern	400	522
South Wales	407	670
South-West	407	600

Bob Williams	11/11/11	11/11/11	11/11/11
Booker	11/11/11	11/11/11	11/11/11
Burton	11/11/11	11/11/11	11/11/11

5	Allyz Oil	21491	42	21491
5	American Gas S.	21491	42	21491
5	American Gas S.	21491	42	21491

[illegible]

## BANKS

Hochstetler D.A.

Desktop Print .....	434
Druck .....	1175
.....	000

Shelby James	115	115
Shelby James	115	115
Shelby James	115	115

Liberty Life Assoc. of Am.	100%	100%
Lincoln Nat. S.	100%	100%
Lincoln Nat. S.	100%	100%

Johnson Fry Ltd. Ltd.  
Zany Pri. Ltd. Ltd.

## BREWERS & DISTILLERS

Journal of the  
Journal of the

Pharmaceuticals	285
Pharmaceuticals	285
Pharmaceuticals	285

Seretary (4) $\rightarrow$ 240	206	$+1_2$	204
Shops $\rightarrow$ 1	107 $\frac{1}{2}$	$-2 \frac{1}{2}$	101

Battle Gif Tech	<input type="checkbox"/>	10	
Barriers	<input type="checkbox"/>	10	

**M. G. Stoney, Jr., Ph.D.**  
 Chief

## BUILDING MATERIALS

Intensitas  $\rightarrow$    
Nyamuk  $\rightarrow$   240

R	240	200
Testing	140	200

Physics.....	30	—
Life Sciences.....	141	—
Lib. Ed. S.....	522	42

Drayton Eng & Ice	90	
Drayton Fair Est.	132	
Drayton House	131	

Warner Bros. Inc. — 500

[illegible]

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## LONDON SHARE SERVICE

## INVESTMENT TRUSTS - Cont.

Trust Name	Price	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596	595	59
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**FT MANAGED FUNDS SERVICE**

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on ( 071 ) 873 4978 for more details.

[illegible]



● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 573 4378 for more details.

[illegible]



Run Time	Order Prio	Per -	Yield Costs
510.93	1	(41)	-
25.60	1	..	-
5.91(3.44)	1	1	-

\$10.78	1.00	-
Fund Ltd		
\$7.9215	1.00	-
Advisers Ltd		
\$27.51	1.00	-
\$6.682	1.00	-
\$6.06	1.00	-
\$14.25	1.00	-
\$17.22	1.00	-
\$15.24	1.00	-

282.2	-0.33	-
281.35	-4.52	-
147.0	-1.0	-
193.0	-1.0	-
<b>Ltd</b>		
1156.20	-	-
<b>ent Ltd</b>		
510.00	-	-
5116.21	-	-
570.10	-	-
29.1.1	-	-
722.1.1	-	-

MS		
\$1074.43	..	-
\$1017.46	..	-
\$1038.64		
MS		
\$1013.16	.	-
\$1017.46	.	-
General (G)		
\$104.10	.	-
Market Fund		
\$10405		2.57
\$1038		2.59

27 1103	..	3.00
27 0264	..	3.74
27 0504	..	3.67
27 0000	..	3.83
27 0975	..	4.81
27 0103	..	4.74
27 0025	..	5.00
27 0103	..	5.00
27 06	..	..
27 32	..	..

\$106.11	..	..
\$107.02	..	..
\$104.44	..	..
\$105.24	..	..
\$102.91	..	..
\$142.18	..	..
\$156.01	..	..
\$2113.10	..	..
\$1-7.32	..	..
\$152.85	..	..
\$1132.09	..	..
\$151.35	..	..
\$194.87	..	..
\$120.22	..	..

\$11.53	1	1.20
Invest Fund		
\$1.45	1	-
\$11.53	1.15	-
\$0.1	1.18	-
\$0.4	1.23	-
\$16.62	16.39	-
\$1	1.02	-
\$1	0.44	-
\$7	7.98	-
\$20	6.02	-

25	5.12	..	-
27	40.12	..	-
14	16.18	..	-
29	9.27	..	-
76	0.27	..	-
94	0.27	..	-
79	9.18	..	-
26	8.31	..	-
1.36	9.33	..	-
Fund			
491389.38		..	-

112.88	11.00	11.00
120.19	11.00	11.00
125.20	11.00	11.00
131.21	11.00	11.00
136.22	11.00	11.00
141.23	11.00	11.00
146.24	11.00	11.00
151.25	11.00	11.00
156.26	11.00	11.00
161.27	11.00	11.00
166.28	11.00	11.00
171.29	11.00	11.00
176.30	11.00	11.00
181.31	11.00	11.00
186.32	11.00	11.00
191.33	11.00	11.00
196.34	11.00	11.00
201.35	11.00	11.00
206.36	11.00	11.00
211.37	11.00	11.00
216.38	11.00	11.00
221.39	11.00	11.00
226.40	11.00	11.00
231.41	11.00	11.00
236.42	11.00	11.00
241.43	11.00	11.00
246.44	11.00	11.00
251.45	11.00	11.00
256.46	11.00	11.00
261.47	11.00	11.00
266.48	11.00	11.00
271.49	11.00	11.00
276.50	11.00	11.00
281.51	11.00	11.00
286.52	11.00	11.00
291.53	11.00	11.00
296.54	11.00	11.00
301.55	11.00	11.00
306.56	11.00	11.00
311.57	11.00	11.00
316.58	11.00	11.00
321.59	11.00	11.00
326.60	11.00	11.00
331.61	11.00	11.00
336.62	11.00	11.00
341.63	11.00	11.00
346.64	11.00	11.00
351.65	11.00	11.00
356.66	11.00	11.00
361.67	11.00	11.00
366.68	11.00	11.00
371.69	11.00	11.00
376.70	11.00	11.00
381.71	11.00	11.00
386.72	11.00	11.00
391.73	11.00	11.00
396.74	11.00	11.00
401.75	11.00	11.00
406.76	11.00	11.00
411.77	11.00	11.00
416.78	11.00	11.00
421.79	11.00	11.00
426.80	11.00	11.00
431.81	11.00	11.00
436.82	11.00	11.00
441.83	11.00	11.00
446.84	11.00	11.00
451.85	11.00	11.00
456.86	11.00	11.00
461.87	11.00	11.00
466.88	11.00	11.00
471.89	11.00	11.00
476.90	11.00	11.00
481.91	11.00	11.00
486.92	11.00	11.00
491.93	11.00	11.00
496.94	11.00	11.00
501.95	11.00	11.00
506.96	11.00	11.00
511.97	11.00	11.00
516.98	11.00	11.00
521.99	11.00	11.00
526.00	11.00	11.00
531.01	11.00	11.00
536.02	11.00	11.00
541.03	11.00	11.00
546.04	11.00	11.00
551.05	11.00	11.00
556.06	11.00	11.00
561.07	11.00	11.00
566.08	11.00	11.00
571.09	11.00	11.00
576.10	11.00	11.00
581.11	11.00	11.00
586.12	11.00	11.00
591.13	11.00	11.00
596.14	11.00	11.00
601.15	11.00	11.00
606.16	11.00	11.00
611.17	11.00	11.

\$22.08	(a1)	\$100
ment (Ireland) Ltd (a)		
17 : 20		
18 : 21	--	--
armada) Ltd		
\$177.03 56		
argent (Bermuda) Ltd		
\$14.330	--	--
ment Inc		
\$134.07	-	-

5172.26	-	-
114.26	-	-
\$119.84	-	-
5217.37	-	-
512716.12	-	-
61702.87	-	-
275058.26	-	-
22318.24	-	-
52734.01	-	-

\$7.17	..	-
18834.25 Dec 50		
Kochsberger Ltd		
67 10.30	+0.02	-
Capital Pd		
\$13.98	..	-
mmj Ltd		
\$30.02	..	-

101.52	1	-	-
510.13	1	-	-
58.68	1	-	-

63			
17			
27			
29			
54			
83			
9			
70	14.01		
5.25			
16.20			
8			
89			
6			

91	-	40.72	-
1	-	-	-
09.56	-	-	-
70.68	-	-	-
10.00	-	-	-
Unlimited	-	-	-
04.230.67	-	-	-
maand) Ltd	-	-	-
1.12.36	-	-0.09	-
74.13.23	-	-0.03	3.61
6.16.28	-	-0.05	3.36

13.52	+0.04	-
16.23	+0.02	-
39.16	+0.73	-
1052.78	-	-
943.01	-	-
180.56	-	-
254.06	-	-

Management Ltd			
10 83	-0.03	-	
11 04	+0.02	-	
10 76	-	-	
4 71	-	-	
104 71	+0.77	-	

108	19	-
17 31	20	-
10 76	19	-
64 11 43	19	-
77 14	19	-
0.26	19	-
muja Ltd		
16 161 -0.02		-
52	19	-
4.45	19	-

01.74	-
Investment Fd Ltd	-
4080	-
4314	-
4300	-
Guernsey) Ltd	-
48 97	-

**UNDER NOTES**  
 \* Includes unadvised and those  
 under U.S. Customs. Yield %  
 = Prices of certain older issues  
 usually lower for on dates. A  
 1/2 Percent premium insurance  
 price. It is considered as a USPT  
 investment in Transitable Sec-  
 4 All expenses except agent's  
 price. 1/2 Quarterly gross. 1/2

The regulatory authorities for financial services (Commission, Bank, Isle of Man Financial Services Department, Financial Services Department, Luxembourg).



## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGE

## Boost for dollar and pound

WELL-RECEIVED data suggesting a pick up in manufacturing activity in the US gave a lift to the dollar yesterday. Dollar strength helped sterling which also received an initial boost from comments on interest rates by the UK chancellor, Mr. John Major.

The US currency was firmer against the yen in Tokyo in spite of comments from Mr. Fred Bergsten, a US economist visiting Japan who said it needed to stay below ¥110 to the yen in order to reduce Japan's large external trade surplus.

In European trading, the dollar was helped by the latest index from the National Association of Purchasing Managers for October which reflects optimism over manufacturing activity. The index rose to 63.5 per cent against an expectation of around 61.8 per cent and a previous figure of 49.7 per cent. The latest data on US construction also encouraged the market.

Mr. Jim O'Neill, economist with Swiss Bank who has

a very negative forecast on the dollar changed his estimate for the dollar's floor against the D-Mark to DM1.8750 in the short-term from DM1.8500 previously. But he still believes it will be back to DM1.60 by the end of the year.

The dollar came very close to DM1.70 yesterday, its highest point since August. At that level many investors were taking their profit on the big rally of the past two weeks and moving funds into sterling and yen. There was also nervousness that the Bundesbank might be selling the US currency.

At the close of European trading, the dollar reached \$1.4845 against sterling, up from \$1.4845 previously but ¥108.30 to the yen, down from ¥108.40. It maintained its strength against a D-Mark weakened by the Bundesbank's recent interest rate cuts and closed up at DM1.6935, from DM1.6795 on Friday.

Sterling also lifted smartly

against the D-Mark at the start of trading as Mr. Kenneth Clarke, the chancellor, added his voice to attempts by the governor of the Bank of England on Friday to dampen speculation of an early rate rise.

The pound broke through DM2.50 for the first time since the end of August and the index which shows sterling against a basket of leading currencies rose to 81.1 before closing marginally lower at 80.9.

Gains were pared back at midday but then the pound picked up in the afternoon as investors switched out of the dollar. Sterling closed at a penny higher on the day at DM2.5075.

One dealer said belief that sterling had broken through to a new chart-bound range could push it higher still. "If it stays above DM2.50 for more than 24 hours the technical boys will move and we could see it hit DM2.55."

## EMS EUROPEAN CURRENCY UNIT RATES

	Unit	Rate	% Change	% Spread	Volatility
Deutsch Mark	1.9372	2.1478	-2.34	5.83	17
French Franc	1.9372	2.1478	-2.34	5.83	17
Italian Lira	1.9372	2.1478	-2.34	5.83	17
Spanish Peseta	1.9372	2.1478	-2.34	5.83	17
Portuguese Escudo	1.9372	2.1478	-2.34	5.83	17
Belgian Franc	1.9372	2.1478	-2.34	5.83	17
Dutch Guilder	1.9372	2.1478	-2.34	5.83	17
Swedish Krona	1.9372	2.1478	-2.34	5.83	17

## £ IN NEW YORK

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

Forward premiums and discounts, apply to the US dollar.

## STERLING INDEX

Nov 1	Nov 2	Nov 3
80.9	81.1	81.2
81.1	81.2	81.3
81.2	81.3	81.4
81.3	81.4	81.5
81.4	81.5	81.6

## CURRENCY RATES

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## CURRENCY MOVEMENTS

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## OTHER CURRENCIES

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## EXCHANGE CROSS RATES

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## POUND - DOLLAR

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## FT LONDON INTERBANK FXING

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## MONEY RATES

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## LONDON MONEY RATES

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## TREASURY BILLS AND BONDS

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## MONEY MARKETS

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## UK clearing bank base lending rate

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## Then on Sunday, Mr. Kenneth

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## The Bank of England offered

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## The bulk of the shortage was

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## Dealers said that as late

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## provided for a very short

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## period - usually one or two

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## days - yesterday's help was

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## likely to tight monetary

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## conditions later in the week

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## The bank of England offered

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## early assistance after

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## forecasting a liquidity

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## shortage of around \$500m,

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## later revised to

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## \$1.1bn, but there were

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## no takers.

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## The bulk of the shortage was

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## dealt with via \$300m of

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## late assistance. Dealers said

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## that as late help is

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## traditionally provided

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## for a very short

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845
1.4845	1.4845	1.4845

## period - usually one or two

Nov 1	Nov 2	Nov 3
1.4845	1.4845	1.



## CANADA

# CANADA

Sales	Stock	High	Low	Close	Chg	Sales	Stock	High	Low	Close	Chg	Sales	Stock	High	Low	Close	Chg
<b>TORONTO</b>																	
4 pm close unless marked *																	
Options in close unless marked *																	
370850	Alcan	\$134	134	134	+	13000	Danora	\$30	29	33	-	5200	Star	\$51 1/2	51 1/2	51 1/2	+
132425	Alcan	\$134	134	134	+	25400	Dart	\$45	46	46	+	4100	Stell	\$22 1/2	22 1/2	22 1/2	+
122000	Alcan	\$134	134	134	+	20070	Decca	\$10 1/4	10 1/4	10 1/4	+	2500	Stell	\$22 1/2	22 1/2	22 1/2	+
16730	Alcan	\$134	134	134	+	28400	Dorfin	\$10 1/4	10 1/4	10 1/4	+	74250	Stell	\$10 1/4	10 1/4	10 1/4	+
2600	Alcan	\$134	134	134	+	10877	Dorfin	\$10 1/4	10 1/4	10 1/4	+	69010	Stell	\$10 1/4	10 1/4	10 1/4	+
2600	Alcan	\$134	134	134	+	500	Dorfin	\$10 1/4	10 1/4	10 1/4	+	161427	Stell	\$10 1/4	10 1/4	10 1/4	+
311430	Alcan	\$134	134	134	+	35233	Dorfin	\$10 1/4	10 1/4	10 1/4	+	8802	Stell	\$10 1/4	10 1/4	10 1/4	+
31400	Alcan	\$134	134	134	+	104200	Emco	\$15 1/2	15 1/2	15 1/2	+	13252	Stell	\$10 1/4	10 1/4	10 1/4	+
65946	Alcan	\$134	134	134	+	2400	Emco	\$15 1/2	15 1/2	15 1/2	+	8802	Stell	\$10 1/4	10 1/4	10 1/4	+
2200	Alcan	\$134	134	134	+	20070	Emco	\$15 1/2	15 1/2	15 1/2	+	8802	Stell	\$10 1/4	10 1/4	10 1/4	+
14569	Alcan	\$134	134	134	+	54890	Emco	\$15 1/2	15 1/2	15 1/2	+	7498	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	6970	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	18600	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
5100	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
89200	Alcan	\$134	134	134	+	1000	Emco	\$15 1/2	15 1/2	15 1/2	+	1000	Stell	\$10 1/4	10 1/4	10 1/4	+
1000	Alcan	\$134															

NEW YORK DOW JONES											
	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov	Dec	Oct	Nov
	29	28	27	26	25	24	23	22	21	20	19
Industries	3880.59	3887.38	3884.68	3872.48	3887.88	3841.55	3887.88	3841.55	3887.88	3841.55	3887.88
Auto	1052.18	1058.44	1064.14	106.34	1057.77	1058.44	1064.14	106.34	1057.77	1058.44	1064.14
Transport	1727.97	1727.93	1698.56	1697.18	1727.93	1698.56	1697.18	1727.93	1698.56	1697.18	1727.93
Utilities	240.77	240.18	238.86	238.60	240.77	240.18	238.86	238.60	240.77	240.18	238.86
Oct 29, Day's High 3712.45 (Oct 29) Low 3834.38 (Oct 29) (Thursday) Day's High 3880.77 (Nov 28) Low 3841.55 (Nov 28) (Friday)											
STANDARD AND POOR'S											
Industries	457.84	457.73	454.81	451.48	459.30	459.05	459.30	451.48	459.30	459.05	459.30
Auto	133.48	133.37	130.81	131.38	133.48	133.37	130.81	131.38	133.48	133.37	130.81
Transport	45.12	45.02	44.84	45.13	45.12	44.84	45.13	45.12	45.12	44.84	45.13
Utilities	238.38	238.89	237.48	237.27	238.38	238.89	237.48	237.27	238.38	238.89	237.48
Average Ind. Index	481.44	477.45	471.88	475.24	481.44	477.45	471.88	475.24	481.44	477.45	471.88
NYSE Composite	778.28	777.45	771.88	765.48	778.28	777.45	771.88	765.48	778.28	777.45	771.88
Oct 29 Oct 15 Oct 8 year ago (approx.)											
Ind. Industrial Ind. Yield	3.78	3.81	3.84	3.74	3.78	3.81	3.84	3.74	3.78	3.81	3.84
Oct 27 Oct 13 year ago (approx.)											
S & P Ind. Div. Yield	2.45	2.39	2.47	2.40	2.45	2.39	2.47	2.40	2.45	2.39	2.47
S & P Ind. P/E Ratio	38.51	38.49	38.50	37.32	38.51	38.49	38.50	37.32	38.51	38.49	38.50
NEW YORK ACTIVE STOCKS											
TRADING ACTIVITY											
Nov 29 Nov 28 Nov 27 Nov 26 Nov 25 Nov 24 Nov 23 Nov 22 Nov 21 Nov 20 Nov 19 Nov 18											
Total Sales 27,214,233 shares											

[illegible]

Monday, November 1, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change at day
Toyota Motor Co.	3.8m	1,900	+35	Fulda Ltd	1.6m	840	+17
Toshiba Corp	3.4m	713	+15	Burmester Int'l Mts	1.5m	826	-30
Nippon Steel	3.2m	328	-8	Santander Bank	1.5m	2,550	-30
NKK Corp	2.3m	259	-4	Kawasaki Steel	1.5m	333	-4
Haseki	1.9m	859	-2	Honda Motor	1.5m	1,610	+20

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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

A black and white photograph of a Samsung Laser Disc Player. The player is a rectangular unit with a disc tray on the front. Below the tray, there are several control buttons and a small display area. The Samsung logo is visible at the bottom left of the image.

Samsung Laser Disc Player

Dual Bit 4 Times Oversampling  
Digital Filter

SAMSUNG ELECTRONICS



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سید محمد علی



# Global investors remain intent on Pacific Rim